NOVEMBER 1950 2/6

B5-P7

THE BANKER

PROPERTY OF
PRINCETON UNIVERSITY
LIBRARY
NOV 16 1950
RECEIVED

VOL. XCV No. 298

FIXED OR FREE EXCHANGES?

CANADA'S FLOATING DOLLAR

INFLATION IN AUSTRALIA

TRADE AFTER TORQUAY

WILL THE COMMODITY BOOM CONTINUE?

BRITAIN, INDIA AND THE SPENDER PLAN

SCOTLAND: An Economic Survey

HUDDERSFIELD
BUILDING SOCIETY

Investments *Mortgages*

HEAD OFFICE: BRITANNIA BUILDINGS, HUDDERSFIELD
LONDON OFFICE: BRITANNIA HOUSE, 203 STRAND, W.C.2.

BLADES, EAST & BLADES

LIMITED

Established 1821

BANKERS' CHEQUE PRINTERS

CONTINUOUS CHEQUES, BANK NOTES, BEARER WARRANTS, SHARE CERTIFICATES AND GENERAL SECURITY PRINTING

COMPANY PROSPECTUSES.

PUBLIC COMPANY WORK, INCLUDING INSURANCE COMPANIES, BANKS, ETC.

PRODUCERS OF HIGH GRADE PRINTING BY LETTERPRESS, LITHOGRAPHIC AND PHOTOGRAVURE PROCESSES

City Offices:
17 & 23 ABCHURCH LANE,
LONDON, E.C.4
Telephones:
MANSION HOUSE 4366 (10 lines)

Works:
LEONARD STREET,
FINSBURY, LONDON, E.C.2
Telephones:
CLERKENWELL 1020 (10 lines)

Telegrams: "Identical, Cannon, London"

BRADBURY, WILKINSON & CO., LTD.

DESIGNERS, ENGRAVERS & PRINTERS

of

BANK NOTES, POSTAGE STAMPS,
BONDS, SHARE WARRANTS,
CERTIFICATES, CHEQUES,
and
ALL DOCUMENTS OF SECURITY

HEAD OFFICE & WORKS:
NEW MALDEN, SURREY
TELEPHONE: WIMbledon 0033-4-5-6

LONDON OFFICE:
20 COLEMAN STREET, E.C.2
TELEPHONE: MONARCH 7531-2

S

TS,
IG

TC.
S,

T.
C.2

s)

THE BANKER

THE BANKER
IS PUBLISHED BY
THE BANKER LIMITED

Editorial and Advertisement Offices
22 RYDER STREET, ST. JAMES'S,
LONDON, S.W.1.
Publishing Office:
72 COLEMAN STREET.
LONDON, E.C.2.
Telephone: Monarch 8833
Telegrams: Bankroy, Ave, London
Cables: Bankroy, London

•

THE SUBSCRIPTION RATES POST FREE TO ANY PART OF THE WORLD ARE:—
TWELVE MONTHS.... £1 5 0
SIX MONTHS........ 12 6

•

THE EDITOR WILL BE GLAD TO RECEIVE MS. ARTICLES. THOUGH EVERY CARE WILL BE TAKEN, HE CANNOT HOLD HIMSELF RESPONSIBLE FOR ARTICLES SENT HIM

•

THE BANKER *is published on the First Day of the month*

November, 1950 NUMBER 298: VOLUME 95

CONTENTS

PAGE
Frontispiece: Sir John Craig, C.B.E., D.L. .. xxxiii
A Banker's Diary 267
Fixed or Free Exchanges? 273
Trade after Torquay 278
Will the Commodity Boom Continue? 284
By Ronald Brech
Inflation in Australia 290
By A Special Correspondent
Britain, India and the Spender Plan 295
Canada's Floating Dollar 299
By G. S. Dorrance
Britain's Overseas Investments 303
By Peter Davies
Risk Factors in "Foreign" Banking:
V—Security Sales and Purchases 306
By A Special Correspondent
Scotland—An Economic and Industrial Survey:
Industrial Progress and Problems 311
By C. Macrae
Scots Steel faces Scrap Shortage 316
By David Murray
Fluctuations in Scottish Fishing 320
By C. J. Shimmins
Oil Refining and Scottish Industry 322
By W. M. Cumming
International Banking Review 325
Appointments and Retirements 329
Balance of Payments Statistics 331
Banking Statistics 333

SUN INSURANCE OFFICE LTD. • FOUNDED 1710

THE OLDEST INSURANCE OFFICE IN THE WORLD
is prepared to undertake all
the duties usually entrusted to
EXECUTORS and TRUSTEES
at reasonable rates.
Booklet on application to:
Head Office: 63 Threadneedle Street, E.C.2
Branches in all important Towns.

OVER 250 YEARS OF BANKING SERVICE

TOTAL ASSETS
EXCEED £115 MILLIONS

Governor :
THE RIGHT HON. LORD ELPHINSTONE, **K.T.**
Deputy Governor - SIR JOHN CRAIG, C.B.E., D.L.

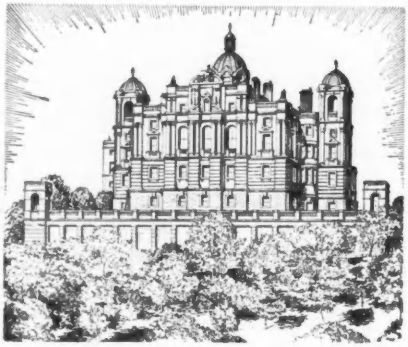
J. B. CRAWFORD, *Treasurer*

Over 200 Branches

BANK OF SCOTLAND

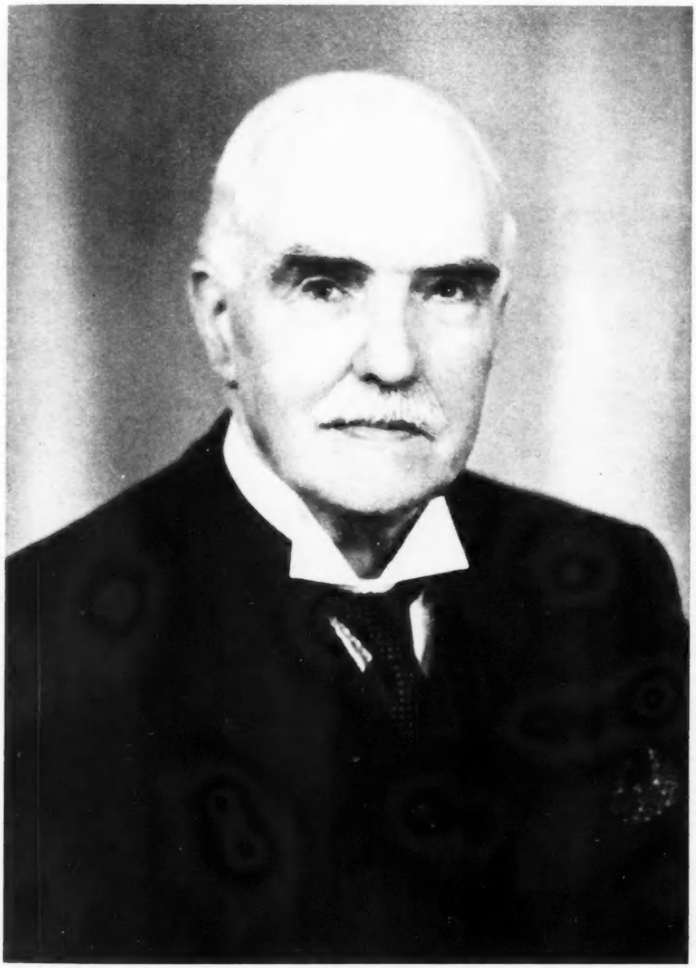
Head Office: The Mound, Edinburgh

LONDON OFFICES :
City Office: 30 BISHOPSGATE, E.C.2
Piccadilly Circus Branch: 16-18 PICCADILLY, **W.1**



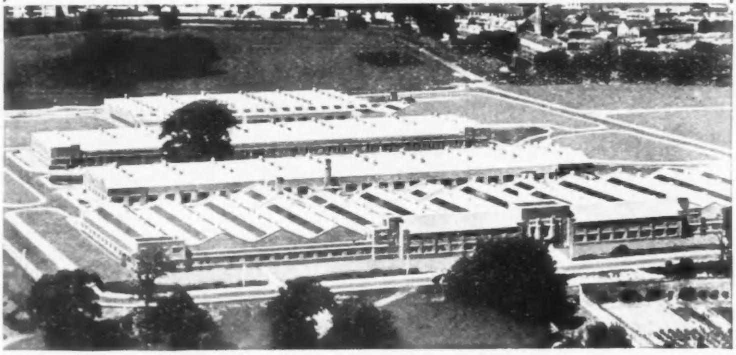
THE
BANKER

Vol. XCV NOVEMBER 1950 No. 298



SIR JOHN CRAIG, C.B.E., D.L.
(the noted Scottish industrialist and Deputy Governor of the Bank of Scotland)

NEW FACTORY for Britain's oldest producer of figuring, accounting and statistical machines



Burroughs great factory at Strathleven, Scotland, now in production

THIS great, modern Burroughs factory at Strathleven, Scotland (foreground building) is welcome news to business and government throughout the United Kingdom and the export market.

Now coming into production, the world's newest plant for the manufacture of business machines is located 16 miles from Glasgow, at Strathleven, on the Vale of Leven Industrial Estate.

This new Burroughs plant of 150,000 square feet at Strathleven, coupled with Burroughs production at Nottingham, ensures the continued leadership of these outstanding products both at home and elsewhere in the Empire.

With the opening of Strathleven factory, Burroughs production in Britain now includes all types of Burroughs machines. In addition, the production requirements for *the entire world* for some Burroughs models are now being met exclusively at Strathleven.

Also expanding—as production increases—is the alert Burroughs service organization. Always near at hand, facilities and specialists are locally stationed to keep your machines in peak condition . . . to give you the finest counsel and guidance in solving those problems of business which involve figuring, accounting and statistics.

We are grateful to our many friends in business whose increasing patronage has made this new project necessary. With ever greater facilities, we hope to serve them even better in the future.

Burroughs
Burroughs

First in Britain to produce figuring, accounting and statistical machines, the Burroughs factory at Nottingham has been manufacturing or assembling machines since 1898 . . . will continue to help supply Britain's need for business machines.

Wherever there's business there's

Burroughs

BURROUGHS ADDING MACHINE LIMITED
Avon House, 356-366 Oxford Street, London, W.1
Factories: Nottingham, Est. 1898; Strathleven, Scotland

ADDING · ACCOUNTING · CALCULATING · STATISTICAL MACHINES

A Banker's Diary

Factors Behind the Funds

THE buoyancy in the security markets last month may have been partly prompted by news of the expected rise in the gold reserves and of Britain's large surplus on current account. To the extent that it has—to the extent, that is, that the evident firmness of sterling may have lulled some investors into the belief that the post-war period of recurring economic crises is necessarily past—this boom has been illogically based. The external payments position is no longer the weakest link by which the strength of the whole chain of the British economy should be gauged; there are other weak links—such as the level of coal stocks—that those who believe in the overwhelming importance of " confidence movements ", prompted by the prospect for future crises, should now watch. In fact, however, closer examination suggests that the rise in gilt-edged over the last few weeks—and with it the rise in most other sectors of the markets—may have been largely due to three factors that can be considered separately from mere observation of balance of payments figures (although they have, of course, been affected by the trends that those figures reveal). These three factors are the inflow of " hot money " to London, the lengthening life of institutional portfolios and—although this suggestion may still be a premature one—what looks suspiciously like a badly timed aberration from the " neutral " official monetary policy of the past two years. The new Chancellor of the Exchequer, whose elevation to high office is a deserved tribute to his perspicacity, has inherited a much healthier economy than his predecessor did—but he may have to take some stern steps if bank deposits are not now to rise out of hand.

Of the three factors, the inflow of hot money may not have been as important as some current comment has suggested. There is no doubt that importers in hard currency areas have been covering their purchases from the sterling area forward—sometimes up to as much as twelve months forward—on a fairly substantial scale. There has, however, been very little accompanying speculation on revaluation from this side of the fence; sterling area importers have not generally been delaying payments for purchases from the dollar area—a fact that will occasion no surprise when it is remembered that the biggest sterling area importer from the dollar area is the British Government itself. Even if current rumours that £100 millions of " hot money " came into Britain in the first two weeks of October are exaggerations, however—and estimates of the net inflow vary widely—it is clear that the short-bond market has been unusually flush with funds in recent weeks. This has allowed some insurance companies and other institutional investors to sell from their ample holdings of short bonds and switch into longer term securities; this switching has been in part a delayed reflux from the very large reverse movement last year when the rise in the long-term interest rate was due, more perhaps than was then realized, to the fact that institutional investors were getting out of long portfolios and " swimming for the shore ". Between the spring and autumn of 1949, it is worth recalling, War Loan 3½ per cents. fell from over 104½ to under 88. At the time that this issue of THE BANKER went to press they stood at

96½. The simplest explanation of the recent rise in gilt-edged may therefore be that the pendulum of institutional confidence—and the liquidity movements that go with it—has, rightly or wrongly, swung half-way back to its position in May, 1949.

Riddle of Monetary Policy

THERE remains the riddle of the authorities' monetary policy. This issue of THE BANKER had to be set up before the clearing banks' statement for October was available; the latest figures for bank deposits were those for September which are shown, with monthly and annual comparisons, in our usual table below. Between March 15 and September 20 this year net bank deposits rose by £268.8 millions—an increase more than £100 millions larger than that in the equivalent period last year. Almost the whole of this rise was accounted for by an increase of £262 millions in money market assets (call money and Treasury bills); no other bank asset changed by as much as £10 millions net over the period—although it must be admitted that advances would have risen by much more than the £7.6 millions shown but for repayments of advances by the Electricity Authority. Between March and September, 1949, Government borrowing on floating debt from the banking system (as shown by clearing bank holdings of money market assets, Treasury deposit receipts and cash) ran up by only £92.5 millions; this year it ran up by £259.5 millions. In the difference between these two figures may lie much of the key to the differing experience of the gilt-edged market.

It has been argued on several recent occasions in these columns that Government departments are unlikely to have any net new funds to employ in the gilt-edged market this year; the surplus of the national insurance funds is likely to be offset by the deficit on national savings, by a small overall budget deficit and by the need to provide the sterling counterpart of the external surplus and certain other Government commitments. Since this analysis was first made here in June, the budgetary position has turned out slightly better than expected and the authorities have secured some new funds from non-departmental contributions to last summer's £100 millions tranche of the 1956-61 Funding Loan—but, on the other hand, they have had to provide more sterling than was originally expected for purchases of inflowing foreign exchange by the Bank of England and for liquidating overseas borrowing. It still seems probable, therefore, that the authorities must finance the £100 millions odd of departmental contributions to the Electricity Loan last May *ex post facto* either by sales of other securities on the market or by perpetuating the switch from floating debt to longer term securities within departmental portfolios—that is to say, by borrowing on new floating debt from the banking system and creating new credit to finance it. It is possible that the departments have been net sellers in recent months; their holdings of B.E.A. loan are reported to be down to so-called "manageable proportions" already. But the fact that bank deposits had risen sharply even before the inflow of hot money began must surely be construed as a sign of something a little more erratic than the usual official refusal to use the rate of interest as a "positive" deflationary force.

If this reasoning is correct, there could be two possible explanations of what is still a relatively minor aberration from the strict canons of former Crippsian monetary policy—an aberration that is chiefly disturbing because it comes at an inflationary juncture when most other countries are wisely tightening their monetary policies up. The first possible explanation—and one that is most unlikely to be correct—is that the Government is unwilling to see a fall in gilt-edged prices at the moment in view of possible future borrowing for the transport industry and defence and of the steel issue next February. The second possible explanation is that the apparent aberration in monetary policy has been largely unconscious. As an article in last month's issue of THE BANKER showed, there seems to have been a considerable switch from long-term to short-term securities in official portfolios in the course of last year; this switch allowed bank deposits to remain fairly stable while advances were increasing by £150 millions and more. It is just possible that the authorities considered that they could legitimately reverse this trend last March on the specious grounds that they had plenty of money " uninvested ". If this is so, the answer to the riddle of monetary policy is alarmingly simple: it is that at this critical juncture of the fight against inflation, the authorities have been doing no serious thinking about the desirable levels of bank deposits and interest rates at all. These ruminations should not yet be strained too far. It is clear, however, that rising bank deposits and falling interest rates are phenomena that the authorities should not encourage in an economy upon which the inflationary effects of rearmament have yet to make themselves felt.

	September, 1950 £m.	%†	Change on Month £m.	Change on Year £m.
Deposits	6027.8		+ 59.6	+ 19.2
" Net " Deposits *	5856.3		+ 77.9	+ 67.8
Cash	492.0	(8.16)	− 12.1	+ 2.0
Money Market Assets	*1901.2*	*(31.5)*	*+ 21.2*	*+ 412.4*
Call Money	542.9	(9.0)	− 1.0	+ 25.4
Bills	1358.3	(22.5)	+ 22.2	+ 387.0
Treasury Deposit Receipts	434.5	(7.2)	+ 67.0	− 468.0
Investments plus Advances	*3102.4*	*(51.5)*	*+ 0.9*	*+ 119.3*
Investments	1501.1	(24.9)	+ 1.7	− 14.6
Advances	1601.3	(26.6)	− 0.8	+ 133.9

*After deducting items in course of collection. † Ratio of assets to published deposits.

Gold and Dollar Reserve

MR. HUGH GAITSKELL, then Minister of State for Economic Affairs, used the very appropriate occasion of the Lord Mayor's Dinner to the Bankers and Merchants of the City of London to disclose what, with typical British under-statement, he was pleased to describe as " the rather cheerful figures about our gold and dollar reserve ". By September 30 these reserves had risen to $2,756 millions, or more than double the figure to which they had fallen just prior to the devaluation of sterling, a little more than a year previously. The increase in the reserve in the third quarter of 1950 amounted to $334 millions, of which $187 millions was the counterpart of a genuine surplus earned by the sterling area in its trade with the dollar world and the balance of $147 millions was the equivalent of E.R.P. reimbursements received during the quarter. The improvement in the reserve, as will be seen by referring to the detailed table on page 332, was not as great as in the previous quarter, but this was more than due to the tailing off in Marshall Aid receipts. The dollar surplus of the sterling area continued, slowly but satisfactorily, to increase. Mr.

Gaitskell attributed the improvement in the reserve to four major influences. The first was the immediate change after devaluation in the attitude of those who previously had been holding off from the purchase of sterling and the sale of dollars. The speculative pendulum has swung to the other extreme. Secondly, he mentioned the improvement of Britain's competitive position caused by the new structure of exchange rates and, so far at least, not frittered away by internal inflation of costs and prices. Thirdly, he pointed to the deliberate measures of dollar economy agreed to at the 1949 Commonwealth Finance Conference. Fourthly, he paid due tribute to the maintenance of a high level of incomes and demand in the United States and Canada. Mr. Gaitskell was also able to announce that Britain had been able to buy a great deal more gold from South Africa and that the sterling area's net loss of gold and dollars to other hard currency countries, such as Belgium and Switzerland, had been drastically cut down. The Governor of the Bank of England, at the same function, could claim that " the position and standing of sterling throughout the world has been greatly strengthened " and he paid tribute to the attitude of organized labour and the support given in business and financial circles to the Government's request for reasonable restraint in resisting the temptation of setting in motion a new inflationary spiral of costs and prices.

These excellent gold and dollar reserve figures left one doubt unresolved, namely, whether the whole of this improvement had been achieved on the backs of the Colonies and other dollar earners in the sterling area. This question has been satisfactorily answered in the latest Balance of Payments White Paper, which, though it covers only the first half of 1950, reveals that the United Kingdom ran an overall surplus of £52 millions in that period. The White Paper is discussed in more detail below. Since it was published there has been evidence (in the shape of the trade returns) that Britain's own overall surplus is increasing and there has been a plain hint (in the extension of the Exchange Equalization Account's borrowing powers) that the sterling area's gold reserves are mounting at a faster rate than before.

An Overall Surplus

THE latest Balance of Payments White Paper contains a new and improved division between the United Kingdom's external transactions on current and on capital account and provides a mass of new detail from which the reasons for the extraordinary strengthening of sterling since devaluation can be more fully judged. In judging this improvement the most relevant comparison is that between Britain's current account surplus of £52 millions in the first half of 1950 and of £16 millions in the first half of 1949; the £54 millions deficit in the second half of 1949 was too overlain by special factors to be of much use as a measuring rod. Judged in this light, the improvement of £36 millions between the first halves of 1949 and 1950 can be seen to have been wholly due to an improvement of £101 millions in the surplus on invisibles (of which no less than £50 millions occurred in the invisible balance with the dollar area); a large part of this seems to have been due to higher net overseas earnings of British oil and insurance companies. The deficit on visible trade in the first half of this year (at £108 millions) was actually £65 millions worse than in the first half of 1949. The detailed figures show that imports rose by £192 millions, chiefly because of a rise of £73 millions from the overseas sterling area and of £55 millions from O.E.E.C. countries (imports from the dollar area alone remained stable). There was little change in the sterling value of exports to areas other than those in the dollar and O.E.E.C. orbits (which rose by £36 millions and £81 millions respectively). Details of changes over a wider period will be found in the tables on page 331.

Two other points that emerge from the White Paper deserve special comment. The first is the extraordinary change in the fortunes of the overseas sterling area. In the first half of 1949 the overseas sterling area ran a deficit of £64 millions with the dollar area, it lost £35 millions to transferable and bilateral account countries and it ran a deficit of £135 millions with the United Kingdom. All this suggests an overall deficit (before allowing for sales in London of newly mined gold) of the order of £230 millions. In the first half of 1950, on the other hand, the overseas sterling area ran a surplus of £65 millions with the dollar area, it received £95 millions from transferable and bilateral account countries and its deficit with the United Kingdom sank by £55 millions; this suggests an overall surplus of about £80 millions. This £310 millions turn-round in its fortunes—together with the improvement in the United Kingdom's own overall balance—accounts in full measure for the improvement in the fortunes of the whole sterling club. The other point in the White Paper that deserves comment is the area-by-area breakdown of existing sterling balances, shown in the table reproduced on page 332 of this issue. With one exception this table suggests a pattern very similar to that already deduced by unofficial investigators. The exception is the £378 millions of sterling balances held by O.E.E.C. countries on June 30 last. When the European Payments Union was commended to Parliament, Mr. Gaitskell revealed that there were £200 millions of sterling balances outstanding in Europe that could be thrown into E.P.U. in the absence of special negotiations; the difference between these two figures is apparently accounted for by balances held outside European central banks. It would seem to be a matter of urgency that the Treasury should define a little more closely exactly who these private European individuals are who hold £178 millions of claims upon the sterling area that they are not expected to exercise.

Bank Rate Changes

WHILE official British monetary policy shows signs of aberration, the inflationary tide which is sweeping the world has called into play some orthodox responses in credit policy abroad. By pre-war standards, however, even these have been tentative and timorous in the extreme. In August the Board of Governors of the Federal Reserve System approved an increase in the discount rate of the New York Federal from $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent. This gesture hardly matched the sternness of the hour but even the $\frac{1}{4}$ rise had to be varnished with a gloss from the Governors to the effect that their use of credit measures to curb inflation would be " consistent with the policy of maintaining orderly conditions in the Government securities market ". One could not wish for clearer verification of the dilemma on the horns of which the United States financial authorities are impaled—the bankers' desire to use credit policy as a major weapon against economic instability and the Treasury's horror of any step that might undermine the maintenance of Government bond prices. Up to now the Treasury view prevails. This has not prevented the banking authorities from making wider use of the weapons of selective credit control. During the past month the Federal Reserve authorities have also tightened the conditions on which instalment credit facilities and house mortgages are provided. Larger down payments and a shortening of the period over which repayments have to be completed should have a considerable effect in restraining these most inflationary forms of credit extension.

Other countries have also made the traditional responses to the menace of inflation. In France the bank rate was increased to 2½ per cent. last June. In Denmark it rose to 4½ per cent. in July. In Belgium it went to 3¾ per cent. in September and Holland followed suit, to 3 per cent., a few weeks later. In Canada it has more recently risen from 1½ to 2 per cent. In Sweden, while the bank rate has remained at 2½ per cent., measures have been taken for the first time to impose compulsory cash reserves on the commercial banks. " That discarded old garden sieve ", as Professor Robertson once described the rate of interest, still has a few devotees. But the timidity with which it is used even by them would have filled the central bankers of yore with rage and contempt.

European Bankers in U.S.A.

A LARGE team of commercial bankers has been sent from Europe to the United States under the aegis of the Economic Co-operation Administration to exchange views with American bankers on problems of export-import financing. The mission is not to be confused with the productivity teams that have crossed the Atlantic to such good purpose in recent months for few would argue that American commercial banking has much to teach Europe about the efficient conduct of its business. There are, however, a number of questions involving the cost and ease of international trade financing, in which discussion could yield valuable results. One of the crucial problems to be discussed will be the standardization of terms and conditions of banking credits, a subject on which the International Chamber of Commerce has already done a great deal of work. Hitherto, the British banking community has shown some resistance to any such standardization, not because its own standards fall any lower than those of the rest—the contrary is the case—but because of the traditional British dislike of being bound by rigid statutes and agreements, especially in a sphere where experience has tended to emphasize the virtues and advantages of elasticity. The British representatives on this team are Mr. A. G. Drake of the National Provincial Bank and Mr. G. R. Tobitt of Brown, Shipley & Co. As successive contributors to the " Debate on Export Indemnities " in recent issues of THE BANKER have shown, wider discussion of the technical problems of banking can do nothing but good.

Mr. A. H. Walter

THE BANKER has this month suffered a sad domestic loss through the death of Mr. A. H. Walter, who had served it as advertisement manager since its inception twenty-five years ago. All who have had contact with Herbert Walter will testify to his modesty, courtesy and charm. Those of us who have worked with him will remember, too, the indomitable courage with which he had fought against the failing health and strength that had dogged him for many months; even from his sick-bed he struggled on in harness until the very day of his death. He bore a name that is famous in journalism for he was descended from the great family that founded *The Times*. His service to this journal was worthy of the highest traditions that his ancestry implied.

Fixed or Free Exchanges ?

THE Canadian Government's decision to allow the Canadian dollar to abandon its fixed parity with gold and to find its own level in a free market has set boldly before the world a most fundamental problem of exchange policy. It is true that Canada's initiative is by no means a pioneer move in exchange policy since the end of the war. A number of countries, although members of the International Monetary Fund, have decided in the prevailing uncertainties to forbear from notifying an official parity of their currencies to the I.M.F. and are allowing their rates to float in a comparatively free market. France and Italy are cases in point. Other countries, among them Belgium, allow rates of exchange to be determined in a free market, although they confine the fluctuations to a range of 1 per cent. on either side of the parities notified to the I.M.F.

The Canadian experiment far exceeds in importance and significance these earlier precedents. Canada is well and truly part of the dollar group, it has been rightly regarded as one of the hardest of hard currency countries and it has been one of the strictest upholders of the I.M.F. philosophy. Canada's decision, however it be viewed, is a basic departure from the pure milk of orthodoxy of the Bretton Woods agreements and it offers a challenge to that philosophy greater than any provided by previous defections.

In order to view the Canadian decision in proper perspective, a brief explanation must be given of the background to it.* This was admirably described by the Canadian Minister of Finance, Mr. Douglas Abbott, in a statement issued after the rate was set free on September 30 last. Mr. Abbott pointed out that since September, 1949, the Canadian current account of international trade had shown only a moderate surplus—a surplus, in fact, slightly smaller than in the preceding year. In recent months, however, there had been a growing tide of capital movements into Canada. Part of this was useful long-term investment based on confidence in the future of Canada. In large part, however, it had been a speculative movement prompted by the hope of early restoration of the Canadian dollar to parity with the United States dollar. That speculative movement had become particularly apparent in the few weeks preceding September 30; it was reflected in the inordinate rise of the Canadian reserve of gold and United States dollars. This reserve rose from \$1,255 millions on June 30 last to \$1,320 millions by the end of July, to \$1,504 millions by the end of August and finally to \$1,789 millions by the end of September.

Mr. Abbott pointed out that an influx of funds on this tremendous scale was exercising an inflationary influence in Canada at a time when Government policy was directed to combating inflation. Moreover, this accumulation of foreign exchange meant that Canada was incurring a substantial increase in its foreign debt and in the annual service charge on it without any corresponding increase in its productive resources or ability to export. For all these reasons, this extraordinary state of affairs had to be ended. Mr. Abbott said that in existing circumstances no one could determine in advance a new level at which to fix the par value of the Canadian dollar and for this reason the Government felt that the rate of exchange should be left to be determined by market forces. The Canadian authorities announced, however, that they intended to remain in consultation with the I.M.F. and hoped ultimately to conform again to the provisions of the I.M.F. agreement (which stipulates that member countries should not allow their exchange rates to fluctuate by more than 1 per cent. on either side of the par values established with the Fund).

---

* A fuller examination of the internal stresses that led the Canadian authorities to their decision will be found in an article on page 299, which also discusses the impact on the London and other markets of free dealings in Canadian dollars.

The reasons for Canada's decision, as expounded by Mr. Abbott, have served to crystallize growing world-wide doubts about the adequacy and effectiveness, in prevailing circumstances, of the Bretton Woods philosophy and the comparative rigidity of exchange rates that it entails. The issue raised is whether economic recovery and the natural balance in which it can best be achieved will most effectively be secured through freedom or stability in exchange rates.

WHAT ALTERNATIVE TO THE GOLD STANDARD?

In the old days it was an accepted business canon that international trade could only be carried on if the exchange rates of all reputable trading countries were immutably fixed in terms of each other and of gold. When any country found its rate being driven below parity by an external deficit, it had immediately to have recourse to credit restriction—to slash employment, incomes and external spending power so that the payments gap could be bridged. The revolt against this canon dates back to the 1930s. The breakdown of the international gold standard was in fact a recognition of a new order of priorities in monetary policy. Increasing concern for domestic stability, for full employment, social security and the rest, took precedence over concern for the external stability of the currency. The events of 1931 onwards showed that national economies could no longer be expected to perform the miracles of elasticity sometimes demanded by the maintenance of stability in their rates of exchange. These new domestic rigidities and the order of priorities that went with them were officially recognized when the new international exchange mechanism was designed at Bretton Woods. The International Monetary Fund agreement aimed at securing the necessary reconciliation between the desire for stability in exchanges and that for stability in national economies. It provided, in effect, that internal stability could still be given preference by any member country. If that country found itself unable to make the necessary adjustments in its domestic economy in order to safeguard the parity of its currency the mechanism was provided whereby that parity could be changed. In other words, ultimate adjustments required for the maintenance of international equilibrium could be secured by appropriate changes in exchange parities. But, between each such change, stability would reign and international trade and finance could be conducted in the knowledge that the parities notified to the I.M.F. would not be departed from by more than the stipulated 1 per cent. margin.

The point now in question is whether the elasticity introduced into the I.M.F. agreement is adequate for the needs of the present day. It should, perhaps, have been more widely recognized at Bretton Woods that the concept of intermittently reigning stability would not be without its difficulties. The changes in parities when they are made and announced are momentous and well-publicized events. They have to be substantial in order to justify all the publicity and in some cases the odium connected with them. The I.M.F., therefore, as at present operated, is in effect a decidedly rigid system interrupted by occasional and usually violent adjustments. Is this kind of system what the world needs to-day?

The case against the present system is based partly on the existing divergences in cost and price structures (and in the forces that tend to make them depart from one pattern), partly on the instability of the basis to which the I.M.F. parities must be anchored, and partly on the nuisance value of the hot money movements that the present system encourages. On the first of these points, comment can be brief. It would seem probable that with the world divided as it is between nations whose economies are wholly controlled, others wholly free and still more in the infinite shades of grey that separate the black from the white, the tendency towards divergences in cost structures is bound to be marked. This alone, it might be argued, calls for rather more rapid and more easily achieved changes in parities than appear feasible under the present operation of the I.M.F. mechanism.

The second argument against the present system is based on the instability of the basis to which the I.M.F. parities are anchored. Nominally that basis is gold. The parities notified to the I.M.F. are expressed in terms of a given weight of fine gold. But beneath the fiction of these gold parities there is the reality that the currencies of members are in fact based on the United States dollar. In the relation between the dollar and gold at $35 per fine ounce, it is the dollar and not gold that is the master. Unfortunately there is to-day considerable uncertainty about the future of dollar prices. There is no doubt that beneath Canada's decision not to re-establish a fixed parity for the Canadian dollar in the immediate future lies an unwillingness to tie the Canadian dollar to an unknown mooring. Canada will not readily forget the results of its decision in 1946 to appreciate the Canadian dollar from a 10 per cent. discount on the United States dollar to parity with it. This decision was taken just after price control had been ended in the United States—at a time when all the world assumed that dollar prices would leap up and reflect the suppressed inflation that had been hidden by the previous controls. The Canadian logic appeared impeccable but it was completely disproved by events. The inflation in the United States did not follow the expected lines and before long Canada had reason to regret its decision. In September, 1949, the Canadian Government was glad to avail itself of the opportunity given by world-wide exchange readjustments to undo what it had done in 1946. Now that the time has come for appreciation again the Canadian Government, once bitten and twice shy, has not unnaturally decided to maintain freedom of manoeuvre and to keep the door open for retreat without the fuss and formality of prior application to the I.M.F. in Washington.

There remains the question of how far the rigidity of fixed parities acts as a positive encouragement to movements of hot money. As soon as a parity comes under suspicion of either over- or under-valuation, there can be no doubt that a fixed exchange rate encourages speculation for or against it. The

Canadian dollar and the Australian pound this year, and sterling last year, have all suffered from this complaint. Speculative exchange operations against a currency whose real value is in question are a well-covered one-way option. The speculators or the traders who cover their future commitments (or fail to cover them when they are bears of a currency) are obviously on "a good thing". They cannot lose and they may gain a substantial profit. In the three cases cited above, and in the current case of sterling at its new parity, movements of speculative capital would have been discouraged by a freely fluctuating rate of exchange in which the rates quoted bore a greater resemblance to the market view of reality and offered less of a covered option to the operators concerned.

SHOULD THE POUND GO FREE ?

Does all this add up to the conclusion that the philosophy enshrined in the Bretton Woods Agreements is already outdated ? Does it indicate that Britain should follow the trail blazed by France, Italy, Canada and other countries, and let the pound go free ? It should be stressed that "letting the pound go free" would not by any means imply removal of controls on capital or even on current transactions. It merely means that the pound would be left to find its natural rate of exchange within the framework of the existing exchange control. There would undoubtedly be certain advantages in following this course. In particular, the inconvenience—to put it at its lowest—of contending against unwanted movements of foreign funds and of neutralizing them by the appropriate technical devices would in large measure be avoided. It can also be argued that the existing danger of the pound being drawn into a possible inflationary vortex in the United States would thereby be diminished, though by no means removed. These, however, are somewhat fanciful shadows against which to fight at the moment.

There are more substantial disadvantages to offset against them in envisaging any decision to let the pound go free. In the first place, it may be questioned whether the cohesion of the sterling area would emerge unscathed from any such decision at the present time. It is true that this discipline did not suffer when the pound fluctuated in the 1930s—but the 1930s and the 1950s are not really comparable. Over the two intervening decades the financial strength of Britain has dwindled, the gold reserve is smaller than it was in nominal terms and smaller still in terms of purchasing power. With the rise of the new Asian dominions and the virtual independence of South Africa and Eire, the sterling area is less inherently inclined to discipline than it was. It may therefore be questioned whether a fluctuating rate for sterling would not be seriously resented by many members of the club who would not be prepared, as they were in the 1930s, to leave all such matters, including the day-to-day intervention in the free market (and therefore the fixing of the gold and dollar rates) to the authorities in London. South Africa, in particular, might be expected to object to any system that left the determination of the sterling price of gold to mechanism controlled from London, for in present circumstances the freeing of the pound would presumably reflect itself in a lower sterling price for gold. Finally, from the angle of contemporary politics, it might be doubted whether a Labour Government in Britain would deem it wise to tolerate a free market for sterling. It would in this way give a hostage to fortune, and offer to international capital an opportunity of expressing its dislike of any measure taken by the Government.

The case for letting the pound go free might have some validity behind it if really serious inflation overtook the United States and if the consequent damage to the dollar were to involve comparable damage to gold, the anchor by which all I.M.F. parities are held. Such a development does not appear at present to lie within the realm of probability, although it is unquestionably a possibility to which some thought should be given. It may be that even the United States is over-straining its resources; the ease with which recent wage concessions have been granted there certainly suggests that a spiral of inflation may be set revolving. It is to be hoped that some time is being devoted in Washington to consideration of the implications which such a development would have for the whole structure of world exchanges, based as it is on a gold standard which is now wholly dependent on United States policy. It is also to be hoped that the International Monetary Fund is devoting some time and attention to reconsidering its existing mechanism for sanctioning changes in exchange parities. The need in the months and years to come may be for somewhat greater elasticity and freedom of movement in exchanges than has obtained over the first four years of operation of the I.M.F. If the Fund is to play its part in directing and controlling exchange policy and is not on each occasion to be overwhelmed by events and to do no more than rubber-stamp decisions reached without its advice or assistance, it will have to erect a new method of consultation. This method will have to be more discreet, less ponderous and more attuned to the sensitive problems with which it has to deal than the existing machinery can claim to be. In particular, is it too late, even now, to retract from some of the decisions reached at the first Savannah meeting of Governors of the Bank and Fund? It was then that, under United States influence, these institutions—and the Fund in particular—were made "politicians rather than bankers", inter-Governmental rather than technical agencies. As long as the Fund remains a political institution, as long as the confidences imparted to it and the advice sought from it are automatically reported by the Executive directors to the Governments whose interests they are called upon to serve, it will not have either the information or the prestige required to allow it to play this more delicate rôle. It would be extremely difficult at this juncture to retrace these steps, to go back on an administrative structure and a procedural technique which have had four years in which to acquire set habits, vested interests and a momentum of their own. But this may be the only way of saving the Fund from the complete atrophy towards which it seems now to be drifting.

When this has been said, however, the case for greater flexibility in exchange rates has been exhausted. The requirements of international commerce and finance still demand reasonable stability of exchanges. The wider interests of the Western democracies are not served by rigidity but they would be gravely impaired by daily inconstancy in the relations between the dollar and sterling and by the political problems which such inconstancy would be bound to entail. A stable rate between these two basic currencies would still appear to be the foundation on which must be built European recovery and the great schemes of Asian and African development on which the dollar and sterling countries have embarked.

Trade after Torquay

WHEN the draft charter of the International Trade Organization was first published in September, 1947, it was widely dismissed as being relevant only " to the remote world of the 1950s ". Although some apostles of bilateralism prefer to turn a blind eye to the fact, the 1950s have now come and economic conditions in general—and world trade equilibrium in particular—have improved in the interim far more rapidly than anybody then predicted. This is not merely true of the improved dollar balance of the sterling area. In 1947 total United States exports of goods and services exceeded imports by $11,660 millions, and, even after allowing for a substantial volume of American gifts and overseas investments, the rest of the world ran down its gold and dollar reserves by $4,300 millions; in the second quarter of 1950 United States exports of goods and services exceeded imports at an annual rate of only $3,000 millions and, after allowing for America's overseas gifts and investments, the rest of the world ran up its gold and dollar reserves by $637 millions. This trend has continued with renewed vigour since, and in August the United States is reported to have run a visible deficit for the first month in many years. Provided there is some assurance that American aid and overseas investment continue to flow at a reasonable rate in the near future (and that the United States fulfils its obligations as a " good creditor country " into the more distant future), the world has now reached a stage at which a considerable advance can be made towards the promised goal of non-discriminatory multilateral trade. It will be surprising if Mr. Gaitskell, in his recent peregrinations in America, was not asked whether Britain is yet prepared to face up to this fact.

It is likely that American pressure for such an advance will come out into the open at Torquay this month during the fifth session of the contracting parties to the " General Agreement on Trade and Tariffs "—the agreement that is acting as a *locum tenens* for the still unratified I.T.O. Charter. This session will be the second of two quite separate G.A.T.T. conferences that are to take place at Torquay this winter. The first, and potentially less important, started last September and will drag on until about next March; in the course of it representatives of thirty-nine countries will horse-trade tariff concessions with each other in some four hundred separate nation-to-nation bargaining bouts. Although any concessions bilaterally agreed upon will become available to all other G.A.T.T. nations under a " most-favoured nation " clause, the bargains struck are unlikely to be of startling news value. In the second conference, however, the representatives of the thirty-nine G.A.T.T. members, which between them control more than four-fifths of world trade, will consider an agenda that already includes such potential pieces of political dynamite as a complaint against the discriminatory import programme of Britain and her Commonwealth and a proposal to grant most-favoured-nation treatment to Japan; this second conference is scheduled to start this November. The next few days are likely to show whether it is Britain's initial intention to grasp at least part of the nettle of freer world trade or to resort again to the Fabian tactics for which crowded conferences always offer such scope.

Unfortunately the communique issued after the recent Commonwealth talks, with its heavy underlining of the need for continued dollar economy (instead of for economy in general), has inevitably led to a certain cynicism abroad about Britain's intentions. Even if this month's Torquay conference is relegated by British obduracy to the rôle of *venue* for a little initial sparring practice, however, its significance should not be underestimated. This time last year Britain was in the initial stages of being impelled, against what she mistakenly thought was her own better judgment, towards freer trade within Europe. The prospect is that this year a battle of the same ilk will be fought —with the object, this time, no less than the eventual achievement of world-wide, non-discriminatory trade, as defined in the I.T.O. Charter.

In view of this prospect it is important to realize that the I.T.O. Charter itself is not a very frightening document. It has been described as consisting of half a dozen principles, half a dozen platitudes and half a hundred escape clauses. It contains three verbose chapters that say all the conventional (and slightly jejune) things about the desirability of maintaining full employment, fostering industrial development and preventing restrictive business practices; it also contains a chapter that lays down a simplified procedure for setting up inter-Governmental arrangements to jack up commodity prices in times of slump—a procedure that would be very useful to the sterling area if the blight of American recession returned. All these chapters, however, are not yet in force; although the charter was signed at Havana two and a half years ago, the United States Congress has not yet ratified it—and, until it does, very few other countries are willing to risk the cold plunge. What is in force, however, although in a slightly attentuated form, is the substance of Chapter IV of the charter which deals with " general commercial policy " and which is, in fact, the most important section of the whole document. The principles of this chapter were enshrined in the General Agreement on Trade and Tariffs signed in Geneva in 1947 and are therefore already accredited objectives of the British Government. Broadly speaking, the G.A.T.T. fulminates against quantitative restrictions, discriminatory import licensing and preferential tariffs—and then goes on to say that all these may be justifiable in cases where their removal would lead to a contraction, instead of an expansion, of international trade. The rules of conduct enshrined in the I.T.O. Charter and in G.A.T.T. did not, of course, bind any Government to strip down its system of import licensing without more ado. Under the I.T.O. Charter members were given a fairly free run in the maintenance of existing restrictions and preferences until 1952; under G.A.T.T. they are permitted to retain existing restrictions and preferences indefinitely. All that G.A.T.T. does is to lay down a rather vague obligation on its members to allow any new quantitative and discriminatory restrictions (or new preferences) to be thrown open to general debate. At Torquay a debate of this kind is likely to be initiated on the severe new quantitative restrictions imposed by the countries of the British Commonwealth, in July, 1949—restrictions that were designed to discriminate against dollar imports and that succeeded in cutting such imports by more than 25 per cent.

It is in Britain's own best interests that the propriety of these cuts, which have been maintained over a year in which $1,335 millions have been added to the sterling area's reserves, should come up for discussion at Torquay. As the country that eventually stands to gain most from freer trade and therefore from the creation of I.T.O., Britain must spare no effort to convince countries with a less vital interest in world trade that she herself is not offending against the spirit of its unenacted law. The question is, of course, whether that conviction can reasonably be imparted in the light of last month's figures on the sterling area's gold reserve and on Britain's balance of payments.

The first argument that may be put forward in defence of the present policy of rigid discriminatory restrictions is, of course, that the sterling area is still a group with very low exchange reserves that is imposing rigid quantitative restrictions in order to increase them to a level at which non-discrimination might become possible. This level, unfortunately, is only definable if it is explained in what contingencies the reserve is expected to be used. The two contingencies against which this increase is currently said to be needed are the mutually contradictory ones of " the uncertainties caused by the rearmament crisis " and the " possibility of an American recession ".

WILL STERLING'S STRENGTH LAST ?

The argument that the rearmament crisis entails an obligation to keep the clamp down on freer utilization of sterling is a very weak one. It is true that rearmament may lead to an adverse turn in Britain's own booming balance of payments, either because disinflationary policies here may be less realistic than those in other countries shouldering a similar defence effort, or because the defence effort here is more directly competitive with export industries than it is in some other countries, or because Britain is a raw material importing country and raw material prices will probably settle down this winter at least some way above the already booming pre-Korea levels. By these same tokens, however, the sterling area's dollar-earning potential is likely to be increased by rearmament—and it is sterling area import controls that will be in question at Torquay. This diagnosis is unlikely to be shaken by any concrete result that may flow from the flurry of memoranda, now passing from one Atlantic Pact Government to another, on the principles of mutual aid for defence and the need for raw material allocation and price control. It should be emphasized at this point that the rising raw material prices after Korea have had very little effect on the sterling area's dollar earnings to date—payments for these materials flow across the exchanges some time after the news of price rises hits the headlines.

There may also be a tendency to-day to over-estimate the extent to which the sterling area needs to build up its dollar reserves in time of boom in order to weather the possible storm of American recession. Recent research has gone far to explode the once fashionable theory that the sterling area turned its deficit of $962 millions in the first half of 1949 into a surplus of $220 millions in the first half of 1950 simply because the United States stopped buying raw materials in the recession of 1949 and started to buy them again at the upswing of the present boom. In a striking article in the current issue of *Lloyds Bank Review* Mr. T. W. Kent estimates that only about $55 millions of this $1,182 millions turn-round (from a deficit of $962 millions to a surplus of $220 millions) was due to increased sterling area exports to North America, while about $595 millions of it was due to reduced sterling area imports from North America. In addition, the recent Balance of Payments White Paper has shown that about $200 millions of the change was due to improvements in the invisible balance and about $150 millions to an improved balance with hard currency countries outside North America. If these figures are of the right order of magnitude it is clear that the main virtue of the American boom in this last year is not that it has raised American demand for imports inordinately, but that it has made American exporters more willing to accept a cut in their export sales (because their home market sales are booming). If recession comes again American manufacturers may make an intensive effort to recapture export markets again (though the longer the boom lasts, the less likely, one would expect, that their efforts would be successful). It is also entirely possible that a decline in demand on the American home market would make American manufacturers demand new restrictions on imports from abroad. In this case the sooner the rest of the world can inveigle America into an International Trade Organization (which would exert the not entirely negligible pressure of a theoretical ban on such restrictions), the better it will be for the sterling area.

There is, however, a second British argument that may be in evidence at Torquay if the present under-cover debate on discriminatory import licensing comes out into the open. The sterling area's cuts in dollar imports last year, it may be said, were expressly designed to bring the dollar account into balance; it is surely a little illogical to discard them now just because they have been a success. The answer to this line of reasoning is that the sterling area's dollar economy since July, 1949, has not been due to the quantitative restrictions then applied so much as to the relative dearness of dollar goods since devaluation. One indication of this is to be found in the fact that sterling area countries such as India, which grumbled most loudly in July, 1949, that they could not cut dollar imports by a quarter, have in fact found it profitable to cut them by up to 40 per cent. A second indication is to be found by examining the import programmes of countries that do not impose discriminatory restrictions in their import licensing. The Swiss and Belgian markets were cited as examples in these columns last month. A further example, about which more information has recently come to light, is that of South Africa. At the beginning of this year South Africa threw open about £150 millions of its annual imports to " universal " licences and agreed to pay for them in gold. It was expected that soft currency countries would be able to supply about one-quarter of these goods in open competition and that the Bank of England would accordingly reap an annual harvest of some £37½ millions worth of gold. It is believed that the Bank of England gained £9 millions of gold from this agreement in the first quarter of 1950 (which was just about up to estimate). In the second quarter the gold contribution from South Africa is believed to have been £20 millions and in the third quarter slightly less. Under new arrangements (described on page 328) South Africa is now to throw open a much wider range of her imports to universal licences, but soft currency countries are still expected to earn upwards of £50 millions of gold a year from her.

The relative importance of prices rather than quantitative restrictions as factors in the sterling area's recent dollar economy should not, of course, be exaggerated. There is no doubt that sterling area countries did abandon, or at least postpone, some dollar purchases of capital equipment in the first flush of the pre-devaluation economy programme; some of those postponed orders are just beginning to seep through to America now. There is also no doubt that some sterling area importers " make do " with soft currency goods where hard currency goods would be slightly preferable on grounds of quality and price; one suspects that the United Kingdom's Ministry of Food is high on the list of these virtuous proponents of a commercial blind eye. If all restrictions on sterling area dollar imports were raised now, therefore, there might be at first an alarming, and later a steady, drain on the central reserves; the initial alarming, and the subsequent less alarming, drain would be greatly increased if full convertibility of sterling were restored. There is, however, no suggestion here—and there should be no suggestion at Torquay—that these heroic steps could be taken at once. What is suggested is that discriminatory restrictions on dollar imports could be gradually lessened. The sterling area should look again at the not inconsiderable number of quantitative restrictions that now serve as a shelter for uneconomic sterling area production rather than as a protection against balance of payments difficulties. There is an urgent case for lifting now those restrictions whose lifting three years hence would hurt sterling area producers most. If Britain does intend to return to non-discriminatory trade eventually, it should not allow uneconomic expansion of certain " dollar-saving " commodities to be further encouraged; if it does not intend to return to non-discriminatory trade eventually, it should not be participating at Torquay.

TARIFF PROBLEMS

Two other knotty problems are likely to come into prominence at the general G.A.T.T. conference at Torquay—those of Imperial Preference and of the admission of Japan to G.A.T.T. with the most-favoured-nation treatment that it implies. Neither G.A.T.T. nor the I.T.O. charter demands the speedy elimination of existing preferences; they merely require countries to throw open to debate any proposals to establish new ones. (Under this clause, incidentally, the Schuman Plan countries may put themselves on the carpet at Torquay.) Imperial Preference has become the main prop of too many Empire producers for it to be suddenly torn away, but it would be wise to watch that it is not allowed to prop up any new lines of uneconomic activity during the period of anti-dollar discrimination and the shelter that it implies.

Similar long-term considerations should be borne in mind when approaching the problem of Japan. It is quite clear that other undeveloped countries, such as India, will increase their production of low cost, low quality consumer goods over the next fifty years and if established producers discriminate against Japan they will merely encourage these other developing nations to concentrate on the same products. It is never wise to suppress contemporary economic awkwardnesses at the cost of creating still graver long-term distortions.

While these weighty questions of principle have been piling up on the agenda for the second of the G.A.T.T. conferences at Torquay, the tariff negotiations themselves are already in progress and seem to have started off reasonably well. These negotiations may prove again that much useful work can be done when representatives of different nations set about the practical weeding of their gardens, undisturbed by more high-powered discussions on the theory of horticulture. Twice before—at Geneva in 1947 and at Annecy in 1949—G.A.T.T. members have pulled tariff schedules through the hoop. At the end of the Geneva discussions the agreements struck were drawn up in 20 separate tariff schedules which between them comprised no less than 43,000 individual items; on some of these items tariff rates were reduced and on others undertakings not to increase rates were given. After the Annecy discussions the number of agreed schedules was increased to 28; the items on the G.A.T.T. schedules now cover some two-thirds of the commodities traded by the participating countries and nearly half the commodities entering into world trade.

This rate of progress, unfortunately, will not be kept up at Torquay. For one thing most of the contracting parties have now shed their surplus fat; any further slimming of tariff schedules may really hurt domestic producers. Even more important is the fact that so many quantitative restrictions on trade have been lifted in the past year (particularly on trade within Europe) that concessions held out with the tariff hand are no longer so largely withheld by the other hand of exchange control and import quotas. At Geneva the United States was one of the very few countries that granted immediate concessions each time it tore down a tariff banner. It was this that provided much of the dynamic behind the conference; countries that still maintained import controls were by no means adverse to bartering concessions that might involve some domestic upheaval in the distant future in return for benefits of immediate dollar substance.

For these reasons the main topic for debate at Torquay may be whether existing tariff schedules, which are only obligatory on G.A.T.T. members until next January, should be extended until 1954. Fortunately, reports from Torquay to date suggest that most schedules are likely to be extended in this way. There may, indeed, be some further tariff restrictions—most of them stemming from two new impulses. First, the United States has come to Torquay with a list of over 2,500 items on which it is prepared to consider concessions. The principal suppliers of these items may still be prepared to bid high for these concessions. If all of them are successfully " bought " the average incidence of the American tariff may be reduced to fairly near the minimum *ad valorem* rate of 9½ per cent. that seems to be the limiting lower level set by the existing Reciprocal Trade Agreements Act; this average level will compare with the present *ad valorem* average of 14½ per cent. and an average of 25½ per cent. before the Geneva discussions. The second source of impulse springs from the presence at Torquay of six nations, including Western Germany, that were not represented at Annecy. They will bring a number of new commodities into the bargaining lists. Germany, for example, is expected to " trade " concessions in its own tariff against concessions in the present American tariff on chemical imports; concessions on either side, of course, will also benefit British exporters under the most-favoured-nation clause.

To sum up: The world dollar shortage has now eased sufficiently for the attainment of non-discriminatory trade to be elevated from the status of an eventual aspiration to that of an early aim. The dismantling of present quantitative restrictions to trade (which has already begun on a regional basis) is, however, a slow business and the first chill wind of recession might send the barriers up again. The principle behind the I.T.O. is that an international body should forbid this; its ban would, however, only be effective if any expulsion threat it might deploy carried with it real deterrents. If G.A.T.T. tariff schedules were to be lowered much further, the threat of removal of most-favoured-nation treatment might possibly constitute such a deterrent; it is for this reason that the long and tedious tariff negotiations at Torquay can be regarded as processes in the forging of a powerful weapon for prosperity.

Will the Commodity Boom Continue?

By Ronald Brech

ONE of the surprising features of recent weeks has been the absence of any sharp falls in commodity prices following the swift success of United Nations forces in Korea. It is true that rubber and tin both became noticeably weaker in the latter part of September—but only for a very limited period. Wool and cotton prices also once tended to decline but for reasons unrelated to the political outlook. Apart from these temporary or minor setbacks, commodity markets generally, up to mid-October at least, have remained astonishingly firm and are currently threatening to soar again.

This firmness throws some interesting light on the factors that caused the markets to become bullish after Korea. The actual consumption of materials has shown no marked increase since June. Demand expanded appreciably, first because commercial stocks had been maintained at relatively low levels and consumers wanted to secure forward supplies, and secondly because official stockpiling programmes were expanded and accelerated. There was also, no doubt, some purely speculative buying, but the firmness of markets in recent weeks suggests that this must have been small. A speculator who bought merely on the hope of a further rise in price—as distinct from a consumer who anticipated his future purchases—would most probably have been tempted to sell once it became apparent that the Korean campaign would be of relatively short duration. And there has been no evidence of any such selling—at least, not on any significant scale.

It seems, therefore, that speculation has been only a minor factor in the upward trend of prices in the last four months. This trend is shown in Table I, which lists prices for seven important raw materials as index numbers based on 100 at November, 1948—the peak of the first post-war boom. Official American quotations have been taken for each commodity so that the rise in sterling prices since before September, 1949, is underestimated by the extent of devaluation. The table shows that in June last all the non-ferrous metals had lower dollar prices than in November, 1948, and the dollar prices of the other listed commodities were only moderately higher (except those of rubber and lower quality wool, which were falling in June itself). Yet by October only one of these commodities—lead—was cheaper than in November, 1948, and this despite the fact that the bare index figures in the table sometimes underestimate the real price rises. For example, if actual prices for copper and zinc were taken instead of official quotations these two metals would be respectively 23 per cent. and 35 per cent. dearer than two years ago. Tin is appreciably dearer than in 1948, although its price was then fixed under the American contract with Bolivia at what was regarded at the time as an extremely high level. Rubber is well over double its price of two years ago, merino wool 40 per cent. dearer, crossbred wool nearly three times as dear, and cotton over 30 per cent. dearer.

The sharp rise in prices during the past four months was superimposed upon a fairly general rise that had been proceeding, with few signs of flagging, throughout the previous seven. Commodity prices generally declined during the first half of 1949 as American industrial activity declined, but they began to recover steadily from last November onwards under the pressure of the

American reflation. In Table I, June, 1949, is given as the approximate low-point reached by most commodity prices, though for wool and cotton the low points were reached somewhat earlier and for lead somewhat later. The other dates have been chosen so as to illustrate recent trends. In the twelve months to the beginning of June, 1950, it will be seen that prices of five of the seven commodities had risen in varying degree—from 3 per cent. for cotton to nearly 150 per cent. for rubber. Lead, which sagged in the autumn of 1949, had regained its level of a year previously, and only tin was cheaper, by about 25 per cent. Copper and zinc prices continued to rise up to the eve of the Korean invasion (June 23, 1950), but most other commodities had stopped rising and rubber and wool were falling. Since June 23 the rise has been phenomenal. Wool has gone up by 40–80 per cent., rubber by 75 per cent., tin by 45 per cent., lead by 40 per cent., cotton by just under 20 per cent., and copper and zinc by just under 10 per cent. It should be noted that those commodities whose prices were least firm in the weeks immediately prior to the Korean invasion (such as rubber, tin and lead) experienced the sharpest subsequent rise. It is these commodities whose prices are perhaps most clearly dependent on the continuance of a tense political situation and " warm war " demand for materials. Rubber may be especially mentioned for the expansion of output since June has suggested that, but for Korea, there might have been surplus supplies.

TABLE I

TRENDS IN DOLLAR PRICES OF COMMODITIES

(U.S. quotations converted to index numbers. Nov. 1, 1948 = 100)

	June 1, 1949	June 1, 1950	June 23, 1950	Aug. 21, 1950	Sept. 27, 1950	Oct. 10, 1950
Copper	75	87	96	96	104	104
Lead	56	56	53	65	74	74
Zinc	71	84	97	97	113	113
Tin	100	76	74	104	101	109
Rubber	71	162	137	243	205	243
Wool 64's	94	103	99	107	146	142
Wool 48's	96	135	128	148	278	270
Cotton (U.S. middling)	106	109	109	123	133	127

In the absence of war and stockpiling demand the key to commodity prices would lie in United States consumption, which has dictated the level of commodity markets in post-war years. The United States now accounts for approximately 60 per cent. of the world consumption of copper, 40 per cent. of lead, nearly 50 per cent. of zinc, 47 per cent. of tin, 46 per cent. of natural rubber, 30 per cent. of wool, and 35 per cent. of cotton. These figures alone reveal the strength of American commercial demand in commodity markets. The United States has also become increasingly dependent on imports for its supplies of most raw materials except cotton. It is importing much more copper, lead and zinc than it did before the war, and the Ministry of Supply has hinged its own selling prices on to those ruling in the New York market so that American price changes are also reflected in Britain. The United States has also overtaken Britain as the largest importer of raw wool in each post-war year except 1949 and despite the development of synthetic rubber production, it is now importing more natural rubber than it did in 1937.

Table II shows that American commercial consumption of raw materials in the first six months of 1950 was not only substantially higher than in the first half of 1949 (when recession depressed demand) but was also running, in most cases, at an annual rate that was the highest achieved since the war. Copper consumption, for example, was running at a rate of 1,230,000 tons a year in the first half of 1950, compared with 1,200,000 tons two years ago and 465,800 tons in 1938. The same trend was evident in the other non-ferrous metals except lead, the consumption of which has also expanded this year but was still substantially smaller than between 1946 and 1948. Consumption of natural rubber reached a peak annual rate of 725,000 tons compared with 627,000 tons in 1948 and 592,000 tons in 1938; rayon consumption (continuous filament and staple fibre) reached 1,200 million lb. against 1,100 million lb. in 1948 and 306 million lb. before the war. On the other hand, wool consumption was at a rate of 628 million lb. a year compared with 693 million lb. in 1948; in 1938 it was only 285 million lb. Cotton consumption at 4,653 million lb. was larger than in 1948 but less than in either 1947 or 1946. It was, nevertheless, more than 150 per cent. larger than before the war. Consumption of these commodities outside the United States has not shown quite such a sharp increase during the first half of 1950, but neither did it decline so sharply in 1949. In the United Kingdom consumption of copper and tin was still below the peak reached in 1948, but in all other commodities, particularly wool and cotton, new post-war peaks have been established this year. Consumption of cotton, wool and rayon has been rising in each of the principal countries of Western Europe, while the consumption of non-ferrous metals and rubber has been more or less maintained.

TABLE II

UNITED STATES AND UNITED KINGDOM CONSUMPTION

(Units items 1 to 6—thousand tons ; items 7-10—million lb.)

		1938	1946	1947	1948	1949	1950*
1. *Copper* :	U.S.A. ..	465.8	1,125.9	1,125.5	1,200.4	946.7	1,230.6
	U.K.	255.0	325.5	350.4	356.4	318.7	314.4
2. *Lead* :	U.S.A. ..	357.2	483.8	664.3	669.7	322.8	330.6
	U.K.	382.3	193.5	177.8	188.0	157.0	157.4
3. *Zinc* :	U.S.A. ..	366.1	706.0	694.0	688.0	579.0	766.0
	U.K.	192.0	193.2	223.2	223.2	198.6	236.4
4. *Tin* :	U.S.A. ..	48.1	54.6	59.2	59.9	50.3	67.0
	U.K.	18.3	25.6	27.4	25.2	20.8	23.2
5. *Rubber, natural* :	U.S.A.	592.0	277.6	562.7	627.3	574.6	725.0
	U.K.	127.7	96.6	153.6	194.0	184.4	216.2
6. *Rubber, synthetic* :	U.S.A.	1.8	761.7	559.7	442.1	405.4	473.2
	U.K.	—	30.1	2.8	2.6	2.7	2.8
7. *Wool*† :	U.S.A. ..	285.0	738.0	698.0	693.0	605.0	627.0
	U.K.	439.0	393.0	443.0	494.0	502.0	548.0
8. *Cotton* :	U.S.A. ..	2,951.1	4,916.4	4,773.1	4,549.6	3,937.7	4,653.4
	U.K.	1,154.3	754.9	851.5	966.8	982.3	1,032.8
9. *Rayon, filament* :	U.S.A.	273.6	666.0	728.4	836.4	781.1	911.2
	U.K.	93.0	107.6	118.8	124.9	154.1	180.4
10. *Rayon, staple fibre* :	U.S.A.	32.4	175.2	223.2	264.0	194.4	290.6
	U.K.	15.4	70.8	83.5	25.1	109.3	147.8

* Annual rate based on first six months. † Clean basis.

This all-round increase in commercial demand during the first half of this year, however, did not necessarily presage a continuing rise in prices for, as can be seen from Table III, output of practically all commodities was rising simultaneously. World copper production, for example, was running at an annual rate of nearly 5 per cent. higher than in either 1948 or 1949. Zinc has been increasing during the past two years and its average rate of production was 12 per cent. higher during the first half of 1950 than in 1948. Lead production which increased sharply last year has expanded further this year and tin production is also up. The output of natural rubber is substantially higher than in 1948 though synthetic rubber production is smaller. Wool and cotton have also expanded but not so markedly; available supplies of wool, in fact, are smaller than they were because the large stocks which were accumulated during the war years, and which since 1945 have supplemented the seasonal clips, have been liquidated. Rayon production (continuous filament and staple fibre) has been rising steadily since 1946.

In general, just before Korea, it seemed likely that the increasing rate of output of most commodities might be able to match the increase in boomtime commercial demand and there was no reason therefore why prices should rocket. But now ordinary boomtime demand for raw materials has been accentuated by expanded rearmament programmes and increased stockpile purchases. It may still take some months before the full direct effect of rearmament programmes is felt by the commodity markets. Most manufacturers, however, expect that present rearmament programmes will lead to an increase in the consumption of strategic raw materials by at least 10 per cent. On this hypothesis it is clear that the increased output of these materials is insufficient to meet this higher consumption, unless civilian consumption is curtailed by higher prices or by some system of allocation and control. This expectation has induced manufacturers to build up stocks, and this in turn has led to higher prices and a dearth of spot supplies. There are some indeed who believe that prices have already risen high enough to curtail civilian consumption to the extent required; the international wool study group, for example, considered at its recent meeting that the sharp rise in wool prices at the opening of the present season will reduce consumption to the level of available supplies. Even if this prognosis is true, however, there seems little reason to be bearish about the market prospect. Once the rearmament programmes have been completed, lower commodity prices must be

TABLE III

WORLD PRODUCTION OF CERTAIN COMMODITIES

(Units items 1 to 5—thousand tons ; items 6 to 8—million lb.)

	1938	1946	1947	1948	1949	1950*
1. Copper †	1,901.5	1,653.4	2,055.0	2,102.0	2,079.0	2,197.0
2. Lead †	1,559.0	1,015.7	1,263.7	1,275.5	1,452.7	1,547.2
3. Zinc †	1,464.5	1,275.5	1,452.7	1,559.0	1,653.7	1,751.9
4. Tin (concentrates) †	—	89.0	112.0	151.5	162.4	163.2
,, (metal) † ..	162.1	99.3	124.6	157.4	168.8	172.2
5. Rubber, natural †	910.0	837.5	1,260.0	1,525.0	1,487.5	1,640.0
,, synthetic †	23.7	806.6	559.3	532.2	440.3	458.0
6. Wool (greasy) ..	3,788‡	3,765	3,709	3,782	3,938	3,979
7. Cotton	14,111	10,285	12,073	13,767	14,823	14,890
8. Rayon, filament ..	413	1,103	1,318	1,557	1,641	3,000
,, staple fibre	145	574	694	920	1,063	

*Annual rate based mainly on first six months. † Excluding Soviet Union. ‡ 1934-38 average.

expected, but the demand for civilian goods cut off at present—or at higher-price levels will presumably become effective after a fairly small drop and pipelines will again have to be replenished.

Over and above the requirements of the rearmament programmes, increased demand for commodities has come from the American stockpiling authorities; this demand, together with replenishment of manufacturers' stocks, has been largely responsible for the sharp rise in prices since June. The exact size of the strategic stockpile is, of course, secret, but it is well known that the quantity of materials so far accumulated (although not the amount of money spent) is much smaller than was originally planned. The feverish haste of the United States Munitions Board to acquire commodities after the Korean invasion bears witness to this fact. It has been estimated that between 1946 and 1949 the stockpile accumulated some 450,000 tons of natural rubber and more than 85,000 tons of tin. Its purchases of copper have probably amounted to over 250,000 tons, lead purchases to about 200,000 tons, and zinc purchases to over 100,000 tons. In 1950 it is expected to add to these totals 150,000 tons of rubber, 100,000 tons of copper, and 150,000 tons of zinc. These quantities in themselves are not very substantial (they suggest that the United States probably has less than two years' supply of most commodities) and such purchases in normal times would hardly be sufficient to jack up the different markets. But the impact of stockpile purchases has been more a matter of timing than quantity. It has been singularly unfortunate that since 1946 large stockpile purchases have coincided with large commercial

HANSA-BANK

formerly **COMMERZBANK** *est. 1870*

NESS 9, HAMBURG 11

We are well organised for the handling
of all projects relating to foreign trade

Every Type of International Banking Transactions

ACCREDITED FOREIGN TRADE BANK

demand. During the first six months of 1949, when American commercial demand for practically all commodities was declining sharply, no stockpile purchases were made, as the United States Munitions Board had exhausted its appropriate funds. In times of political uncertainty such as the present stockpiling must no doubt be given the highest priority, but in normal times the American stockpiling authorities would be well advised to eschew what is known as "sound commercial practice" (by buying on a rising market and holding off on a falling market) and to swing round on the opposite tack; in that way not only would the commodity markets have been accorded greater stability but the quantities acquired would have been larger for the same given expenditure.

Finally, some mention must be made of two contrary dangers that are currently much discussed in the commodity markets. The first is that the United States and Russia might scramble together for strategic materials and thus drive prices still higher. Russian purchases this year, however, have been generally on a much more modest scale than in 1949—and even in 1949 they were only a fraction of American civilian and official purchases. The second danger is that civilian consumption might be restricted by controls rather than the price mechanism—and thus send prices lower. In natural rubber the United States Government is already attempting to restrict civilian consumption in order to provide a larger supply for the stockpile without having to force prices up in the open market, and in Britain zinc consumption is being restricted. Similar schemes may possibly be introduced for other commodities.

The conclusions to be drawn from this survey must inevitably be tentative until more is known about rearmament plans, in particular those of the United States and of the United Kingdom. To sum up for the present, however, output of most commodities is expanding and except for wool it might have been more or less sufficient to cover the expansion in commercial consumption had not the increased demand for stockpiling and military purposes been superimposed on civilian demand after Korea. The demand for rearmament is likely to be spread over a longer period than the demand for stockpiling and as soon as these latter purchases are reduced prices are likely to fall. (This assumes, of course, that the price mechanism will be used as the means of allocation.) In addition, the threat of war has made manufacturers hold larger stocks and anticipate some of their forward purchases. These two factors imply that subsequent purchases will be reduced. But, in so far as rearmament curtails civilian production, an unsatisfied demand will have to be met at some later stage. Purely speculative purchases are believed to have been small and speculative sales, following any possible improvement in the political situation, are therefore unlikely to have a material effect on the markets. The inference from all these conflicting trends is that prices are likely to decline as soon as the political situation reduces the urgency of the demand for stockpiling or as soon as schemes are introduced to restrict civilian production by means other than price, but that they are unlikely to fall far because rearmament programmes, which will presumably continue, and civilian demand, postponed by high prices, should give a certain resilience to the markets. Before all this happens, of course, prices may still go higher; whether they do, however, depends more on the policy of the United States Government than on any statistical appreciation of supply and demand.

Inflation in Australia

By A Special Correspondent

SYDNEY, *October* 13

MR. MENZIES' anti-inflation programme, as revealed in his broadcast to the nation on October 6 and in Mr. Fadden's Budget on October 12, is nothing if not varied. Apart from revaluation, which has become politically taboo, the Prime Minister seemed prepared to pile on to the pantechnicon every piece of disinflationary furniture, new and second-hand, on which his experts could lay hand. His list included: More selective credit policies by the Commonwealth and trading banks; the reinstitution of controls over capital issues and scarce basic materials; a 20 per cent. cut in the public works programme (plus another 20 per cent. cut in works expenditure on local manpower and materials); substantial increases in indirect taxation on luxury goods and moderate increases in postal charges; the institution of a savings campaign; a drive for increased production and for eradicating Communist interference in industry; re-organization of the machinery of Government; and the extension of £A 20 millions of subsidies to keep down the internal price of woollen goods. In addition, steps are afoot to demand prepayment of income tax by wool dealers to the extent of one-fifth of their booming incomes this year; a bill may also be introduced to impose some sort of excess profits tax for the first time in peace. The Budget, which included small concessions to pensioners and others who might be hit by the rising cost of living, aimed, however, at only a very small (£400,000) surplus over expenditure estimated at £A 738 millions in the year.

This programme, varied though it is, may still be insufficient to allay public alarm at the mounting impetus of inflationary pressure. The upsurge in world commodity prices that was precipitated by the Korean crisis occurred at a time when markets were already under considerable pressure. In Australia the situation was dramatized by the opening of the new wool-selling season towards the end of August. The market had closed strongly in June, and it was anticipated that the new season's sales would show a rise in prices. But no one had seriously considered the possibility of the increase of 40-50 per cent. that occurred. No doubt the immediate tone of comment in the Press here, which almost suggested that such a rise in the price of Australia's principal export commodity was a national calamity, was a little illogical; this reaction, however, was a sign of Australia's growing consciousness of the difficult inflationary situation into which she has drifted.

For the past three years, the people of Australia have been aware of a steadily rising trend in their cost of living. The redistributive effects of this have not been as painful socially as they might be elsewhere, because wages are tied to the cost of living index and incomes all-round have been buoyant; the level of employment has been growing and unemployment is non-existent. But in the past eighteen months the shoe has pinched ever more tightly. During the Federal election campaign a year ago, the Liberal and Country Parties, who were returned to power, promised, as one of the main planks of their platform, to " put value back into the Australian pound ". For the greater part of their period in office, however, they have disagreed with each other on disinflationary policy and prices have continued to drift upward.

It was no easy situation that they inherited, for in addition to the general upward trend in costs and prices, the effects of devaluation of the Australian pound along with sterling were only just working through the economy when they took office. Moreover, the former Minister for Immigration's plans for populating Australia were rapidly bearing fruit and bringing heavy investment commitments (for new houses, etc.) with them. At the same time the Government tried to push on with the rapid development of national resources and stuck to this intention even when recent events superimposed on its programme an urgent need for expansion of defence establishments. In prevailing conditions of full employment, shortages of basic materials and lack of flexibility, the contemplated developmental programme, even after the new cuts, is unwisely inflationary.

During the past few years the volume of money in Australia has risen very rapidly indeed. At the end of June, 1950, the volume of liquid funds in the hands of the public was £A 2,060 millions, an amount 16 per cent. higher than in June, 1949, when in turn it was 10 per cent. higher than in June, 1948. The available supply of goods and services has been unable to match this pace of expansion, and prices have risen in consequence. Retail prices increased 9.4 per cent. in 1949-50, about the same rate of increase as in the two previous years. But wage rates increased slightly more and wholesale prices rose even faster. By June, 1950, wholesale prices were 15 per cent. higher than in June, 1949, largely because of a rise of 19 per cent. in the price of imported basic materials following devaluation. These increases in retail and wholesale prices are much more pronounced than in the United Kingdom, while in the United States and New Zealand there has been comparatively little change in the indices in the past two years.

AUSTRALIAN PRICE INDICES

	Retail	Wholesale		
		Imported	Home Produced	Total
1945-46 *	100	100	100	100
1948-49 *	120	113	137	128
June, 1949	124	112	143	131
June, 1950	135	134 *	162 *	151 *

* Monthly averages in years to June 30.

The reasons for these inflationary trends are partly external; there has been a huge expansion in rural incomes. But the country has also suffered from the combined effects of the heavy governmental investment programme and the relatively low productivity of Australian industry; Australia's fundamental troubles, it has been said, are under-production and over-government.

The recent boom in export incomes has been due to a combination of good seasons and rapidly rising world prices, especially the latter; on the whole, the increase in the volume of export production, except for wheat, has been only moderate compared with before the war. There has, however, been a considerable discrepancy between price increases in different commodities. Wool stands at the top of the scale, while butter and meat, which are both subject to long-term contracts with the United Kingdom, stand at the lower end. The five-fold increase in wool prices since 1946 is greater than for any other Australian commodity export, and its preponderance in Australia's oversea trade gives a measure of the rise in total export receipts. Between June, 1949, and June, 1950, the Australian export price index rose 46 per cent. and wool prices were then 75 per cent. above the level ruling immediately before devaluation. This experience was quite contrary to expectations entertained in June, 1949, when there were many indications of weakness in commodity prices; the American recession was then casting a shadow across the market. As a result of the post-devaluation boom, however, the value of Australian exports expanded from £A 543 millions in 1948-49 to £A 617 millions in 1949-50. In the absence of any official intervention with the free marketing system, such as some form of allocation suggested by the United States, a considerable addition to wool income and to total exports is likely in 1950-51. The average price of greasy wool at Australian auctions in August was 107.56d. per lb. against 69.25d. for June. If this trend continues, last year's wool cheque of £A 287 millions will be exceeded by £A 200 millions or more.

EXPORT PRICE INDICES

	Wool	Wheat	Butter	Metals	Meat	Total (exc. gold)
1945-46 *	100	100	100	100	100	100
1948-49 *	314	184	157	244	139	236
1949-50 *	406	187	170	215	159	270
June, 1950.. ..	518	201	170	253	162	321

* Averages in year to June 30.

To some extent the inflationary effects of a rising export income are being counteracted by a growth in imports. In fact, Australia's visible surplus shrank from £A 130 millions in 1948-49 to £A 80 millions last year ; when allowance is made for the deficit on invisibles, Australia's current overseas payments account may well have been just about in balance. There are two reasons, however, why this bare fact is misleading. First, the accelerated flow of goods from abroad represents progress in making up the deficiencies in previous years now that capital goods are becoming more freely available and to that extent may be non-recurrent. Secondly, and much more important, there was a prodigious inflow of capital into Australia last financial year.

BANK MELLI IRAN

(NATIONAL BANK OF IRAN)

Incorporated by Law in 1927. Holder of Exclusive Right of Note Issue

CAPITAL FULLY PAID ... ... Rials 300,000,000
RESERVE (Banking Department) ... ... Rials 1,120,000,000
RESERVE (Issue Department) ... ... Rials 1,000,000,000

Governor and Chairman of Executive Board: H.E. IBRAHIM ZEND

HEAD OFFICE: TEHRAN, IRAN (Persia)

Over 190 Branches and Agencies throughout Iran

New York Representative:
One Wall St., New York

London Representative:
123 Old Broad St., London, E.C.2

CORRESPONDENTS IN IMPORTANT CENTRES ALL OVER THE WORLD

The Bank, through its Banking Department, offers complete banking service for Foreign Exchange Transactions, provides special facilities for Documentary Credits, etc., and with its numerous Branches in Iran deals with every description of banking business. Especial services for all kinds of information regarding import, export and trade regulations in force in Iran.

ADMINISTERS NATIONAL SAVINGS

In the year to last June, overseas reserves rose by £A 200 millions to a total of £A 650 millions and, as payments on current account were about balanced, the whole of this increase must have been due to the capital inflow. The Commonwealth Bank suggests that possibly £A 150 millions out of the increase of £A 450 millions in London funds in the past four years has been for permanent investment in Australian industries. In addition there have been large movements of short-term capital represented by pre-payment for exports, delayed payment for imports, and speculative transfers. All these have arisen out of the expectation that the Australian pound must eventually be appreciated in terms of sterling and all have added to the volume of money here.

Although high export incomes and inward capital movements have added considerably to Australia's inflationary problem, that problem would still exist even without them. The combined impact of a high rate of immigration, a heavy development programme, and defence expansion has fallen on a civilian economy already in a state of full employment and not yet restored to a desirable pitch of post-war productive efficiency. Private investment has been running at about 20 per cent. of national income and seems likely to remain at high levels despite the re-imposition of capital issue controls. In addition, the influx of immigrants necessitates the outlay of further large sums for the provision of houses and factories and transport facilities, part of which will be provided by private investment and part from government expenditure. At the same time, calls upon the expenditure of both Commonwealth and State Governments are rising rapidly. Commonwealth Government expenditure has risen 30 per cent. in the past two years and in the coming year provision has to be made for additional defence expenditure and for about £A 60 millions to finance payment of war gratuities to ex-servicemen. Before the announcement of the 20 per cent. cut in public works expenditure, the Australian Loan Council agreed to a public works programme for the Commonwealth States and public authorities costing £A 246 millions for the current year, excluding defence; even after the cut this expenditure will not fall far short of 10 per cent. of national income.

The pressure of investment demands has bid up the costs of resources and labour and there is good reason to argue that the best possible use has not been made of them. Despite the influx of migrants, labour shortages still persist and Australia has not responded to a world-wide movement towards a higher rate of productivity. Such improvements as have taken place have been mainly in the realm of non-essential rather than basic commodities. Iron and steel production, for example, is only slightly higher than before the war. The output of bricks has not even recovered its pre-war rate, though housing is at the root of many Australian hopes for the future. Coal production is admittedly almost 25 per cent. higher, but it still falls perhaps 20 per cent. short of the expanded basic requirements of industry. There are several reasons for these disappointing results. In the first place, new investment has been misdirected. It has led to a vast expansion of consumption goods and service industries without the essential foundation of basic production. Moreover, labour relations have been at their worst in the basic industries and continuity of essential supplies has been repeatedly interrupted by strikes. Hours of work, too, have been reduced, and a forty-hour week has led to considerable increases in the costs and deterioration in the services of, for instance, State transport systems. Finally, the shelter provided by tariffs, quotas and a lack of oversea competition in recent years has encouraged the growth of industries with high costs and low efficiency.

The dangers of inflation to Australia, then, stem from the side of both supply and demand. On the side of supply, the increased availability of imports will help gradually to overcome the shortage of capital goods, and the dollar loan of $100 millions from the International Bank should help ultimately to step up production. Furthermore, a greater volume of imports should provide a competitive stimulus to Australian industry—if the latter does not avoid it by seeking additional tariff assistance. Unfortunately, however, the problem of incresing production in Australia at lower cost has become so closely bound up with trade union practices and political emotions that its solution depends on the removal of existing inhibitions on the part of both employees and employers—and these are well-nigh impossible to resolve while manpower is in such short supply. Action to lengthen the working week, for instance, can probably be ruled out, although it is now abundantly clear that the forty-hour week was an ill-timed expedient which accentuated inflationary influences. Its harmful effects could be partially overcome if managerial efficiency were stimulated; there is, for instance, a growing feeling that Australia needs committees on industrial productivity on the Anglo-American model. But industrial efficiency, while desirable in itself and a necessary ingredient of an anti-inflation policy, will not go far on its own or in a short time. Immediate action is necessary to lessen the competition for real resources.

It is in this context that exchange appreciation could play a valuable part in disinflationary policy, though its more sober advocates here hesitate to suggest an appreciation of more than 10 per cent. Its value would lie in the immediate reduction of export income and in some cheapening of capital goods. Its immediate effect on the cost of living would not be very great, but it would stimulate very desirable competition within the Australian market. Furthermore, while it might tend to discourage oversea capital, it would also check the inflow of hot money. The virtue of appreciation, compared with other measures of reducing current export income, is that it would avoid the re-imposition of a whole paraphernalia of controls. However, exchange appreciation involves political hazards in running foul of powerful sectional interests. Manufacturers and gold mining interests and industrial trade unions here are all opposed to appreciation as much as primary producers are. It is in face of this opposition that the Government seems, for the present, to have retreated from a step that many individual Cabinet members still desire.

The problem of Australian inflation, then, is complicated. Failing a rapid fall in commodity prices, the best that can be hoped for is that the Government's new measures will ease off the pressure; they are unlikely to reverse the trend in Australian costs and prices. It may be that the Government will have to increase taxation still further in an emergency Budget next year, far from being able to reduce it as it hoped to do when it went to the polls a year ago. Meanwhile, policy will have to continue to be many-sided. Basically, productivity will have to rise; if, as is feared, this proves a slow process, revaluation, a further curtailment of investment programmes, and a large increase in saving, preferably voluntary, may have to play their part. The alternative may be a re-imposition of controls, which even if they are efficient will not cure but only bottle up inflation and in addition must tend to stifle enterprise and reduce productivity.

Britain, India and the Spender Plan

THE capital commitment envisaged under the six-year development programme for South and South-East Asia, which was hammered into first statistical shape at the recent Commonwealth conference in London, will not be known until the plan drafted at that conference is approved by the Governments taking part. Reports current in London, however, suggest that the development plans of the Commonwealth countries in the area can only be carried through if upwards of £1,600 millions of new capital flows in from outside Asia, while the development plans of non-Commonwealth countries may increase the needed flow by £400 millions or more. In India, the largest of the participating countries, the programme apparently aims at an increase of jute production by 50 per cent., of cotton by 30 per cent., of oil seeds by 30 per cent., and of food grains by 8 per cent., all within the six-year period. It is clear, therefore, that something fairly substantial is in the air. Whether it will remain in the air (apart, that is, from the £8 millions fund for technical assistance already set up) depends not so much on the human need for the investment, which no one can deny, as on its potential economic efficacy in the changing world situation.

This point is worth stressing for the original dynamic behind the " Spender Plan ", as this development programme is usually called, was political and perhaps rather woolly. It sprang from a vaguely defined fear that the spread of Communism in South-East Asia must be encouraged by the fact that the desperately low living standards of Asian peoples have lately sunk even below pre-war rates ; in India the *per caput* daily supply of calories in 1948-49 was estimated at 1,593 calories compared with a *per caput* supply of 1,968 calories for India and Pakistan in 1934-38. Average daily consumption of food in the whole area covered by the development programme is less than two-thirds that of the United Kingdom and it is still diminishing. This area, it must be remembered, contains 570 million people—a quarter of the world's population—and fertility is such that population will probably increase by another 150 millions within the next twenty-years. Those who believe that Communism is the inevitable product of very low living standards (and, to be frank, this has never been proved) could not fail to take note of the fact that although what may be called the " middle-income groups " of the world's population, as represented by the organized workers in industrial countries, have grown richer since 1938, the comparatively rich and the very poor sections of it have both grown poorer. The political implications of this odd redistribution of income certainly provide sobering food for thought.

Although the original impulse behind the Spender Plan was political, the impulse that carried it past its second stage was much more hard-headed and economic. When the Spender Plan was first mooted at Colombo, Commonwealth Governments were looking forward with some alarm to 1952 when Marshall Aid was scheduled to end. It seemed clear then that some means of irrigating the non-dollar world with dollar investment would have to be found if world trade was not to dry up completely in the later 1950s. The most obvious initial entry points for such investment were the backward areas—and the backward areas of politically vulnerable South Asia in particular.

Despite President Truman's Point Four declarations, however, it was plain that American aid on the scale required would only flow if a working model for development could first be set up by the Commonwealth itself. Thus self-interest allied with humanitarianism to set in train the planning mechanism that has now passed through the Colombo, Sydney and London conferences towards the blueprint stage.

It is unfair to be cynical about this dual impulse and to suggest that the stronger members of the Commonwealth have put up a front to attract more dollars into the non-dollar world by hiding behind the petticoats of their weaker sisters. That cynicism should be dispelled when it is recognized how large a part of the post-war dollar burden of the sterling area has been due to the needs of members in Southern Asia. This burden has been both direct—India's dollar deficit between July, 1948, and July, 1949, was $213 millions—and indirect, through the pre-emption of British resources that unrequited exports have involved. The extent of these unrequited exports has not always been very clearly defined. Just before the Sydney conference a British Government spokesman declared that Britain had aided South Asia to the extent of £750 millions since the end of the war; this figure apparently included £105 millions of post-war loans and grants (to Burma, Malaya, Borneo and Hong Kong), £350 millions of releases from blocked sterling balances for current account purchases by India, Pakistan and Ceylon, and £280 millions of releases from these blocked balances for capital account purposes (including some £180 millions which represents the capital value of the annuity out of which the pensions of former servants of the pre-war Indian Government are paid). It can be argued that these releases on capital account should not be included in the tally of unrequited exports and that the extent to which Malaya and Hong Kong have run up their sterling balances since 1945 (probably well over £50 millions) should be thrown into the scale as counter-balancing unrequited imports. On a somewhat lower plane of argument Asian Dominions might have some complaint against the classification of releases as "aid" anyway. But the fact remains that the utilization of old balances between 1946 and 1949 put a heavy strain on Britain's industrial potential and contributed in no small way to the retardation of her recovery and to that of the whole sterling area.

This drain on Britain's resources, it is important to note, has temporarily ceased. In the year to June 30 last India's sterling reserves (not including the capital value of the pensions annuity) ran up by £5 millions to £620 millions. Although Pakistan, owing to special difficulties, continued to gobble up her sterling reserves at an alarming rate in 1949-50, the drain she caused was probably more than offset by the increase in the reserves of Malaya and Hong Kong. In the year to last June, in fact, Britain was not a large net lender to South Asia, she was probably a net borrower from it. In addition, the South Asian sector of the sterling area, thanks largely to Malaya's earnings from rubber and tin, must have been a net dollar earner in recent months.

This seems, therefore, an apt time to look again at the lessons thrown up by Anglo-Indian financial relations in the last two years. The real complaint against the policy of liberal releases from sterling balances in 1948 and 1949—a complaint that was voiced in this journal and in many other liberal sectors of opinion in this country—was not that an unfair distribution of income between Britain and India was taking place; the figures themselves repudiated that. The complaint was that the policy of large releases (and large permitted dollar drawings), negotiated after much haggling, worked against the best interests of both countries. As soon as these releases had been secured by acrimonious bargaining, they were spent on industrialization programmes—and this despite the fact that considerations of price, delivery dates and quality made the years between 1947 and 1950 the worst possible years for such programmes. The strain put on Britain's dollar-earning potential by the servicing of these releases contributed in no small way to the increasing restrictions imposed on sterling area dollar imports in those years—and eventually to devaluation. It was only when devaluation came and the sudden increase in the price of dollar machinery made much of South Asia's industrialization programme uneconomic that the situation righted itself of its own accord.

The lesson that must be learned from this experience is surely that the amount of development money to be ploughed into sectors that will not yield an immediate commercial return (this may include much expenditure on land clearing, communications, training colleges, and so on) must be laid down in advance; and that, thereafter, investment must be determined by purely commercial considerations uninhibited by haggling on grounds of need.

It is still uncertain how much can be ploughed into initial, non-yield-bearing projects and where these funds will come from. Some of the funds required, of course, will come from forced saving within Asia through taxation or other means; there is, however, perilously little room for forced saving in countries with such a low standard of living. Some of the funds, even for these non-yield-bearing projects, will come initially from international institutions such as the International Bank, and will be repaid by Asian Governments out of foreign exchange reserves later; India has already borrowed $34 millions for railway development, $10 millions for land reclamation and $18½ millions for power development in this way. Some of the funds, too, must come in the form of outright " Point Four " grants from the United States. Unfortunately, however, it may be difficult to attract any great flow of funds from America until the whole Spender Plan seems to be working—and, it may not start working until initial non-commercial funds are injected.

The residue must depend on what the sterling balances can bear. There are two points to be considered here. The first is that many of these countries are no longer countries with large exchange reserves. India, the most important of them, has £620 millions of sterling left, but even these would not bear a drain at the rate experienced between June, 1947, and June, 1949 (when £250 millions was released on current account and £260 millions on capital account). The second point is that British, or rather sterling area, production cannot stand an unrequited drain of this rate—if it was called upon to attempt to do so the results would again be disastrous for the sterling area, the Asian members no less than the rest. It must be remembered that this judgment would still hold even if the development programme were " financed " by a contribution to South Asia from Australia's dormant sterling balances. The strain on productive potential must be measured by the extent to which sterling balances as a whole run down.

Once it has been decided how much can be ploughed into these initial non-commercial projects, careful decisions must be taken on how the funds shall be distributed. The object should always be to prepare the ground for commercial investment to take over. Only on a few, small-scale pilot projects should public, non-commercial investment be carried right through to the production of marketable products themselves. The fate of the Kongwa experiment (the lessons of which were brilliantly summarized in two articles by Professor S. H. Frankel in *The Times* last month) should serve as a sombre warning to those who believe that heavily capitalized agricultural projects can profitably be carried through on virgin territories on public money and according to grandiose plans that are published in advance of the turning of the first sod. In agriculture, which must necessarily form the main hub of the programme, the emphasis must be on land-clearing, improvement of communications and encouragement of production by small farmers; this last task has been sadly neglected in most undeveloped areas since the war.

In the industrial section of the programme the main physical aim will be to improve communications and power supply; these physical aims, however, will be at least matched in importance by the aim of establishing conditions of confidence for private foreign investors in the area. At the moment the restrictions imposed on the entry and withdrawal of foreign capital by India, and most other Commonwealth countries in South Asia, are not noticeably more onerous than those imposed on foreign investment by the United Kingdom. Despite this, private investment in the area since the war has been disappointing. Only about £4 millions of private British investment has taken place in India in the last three years and private United States investment in India has been less than one per cent. of this. The truth is that, apart from areas in which oil is to be found, private foreign investment nowadays is almost always directed towards areas which can serve as centres from which exports can be sent back to the homeland; the baits which foreign investors need are low wage rates and low profits taxes, and neither of these are attributes of which democratic governments usually like to boast. India, at the moment, is not well served to act as an exporting centre to any rich market—though she will be the obvious centre for South Asia when and if incomes there increase.

To sum up: The Spender programme is to be welcomed insofar as it may mean that planning is to replace annual haggling over sterling releases in determining the size of the deficit to be run by the developing countries of Southern Asia, the reasons for which that deficit is to be run and the distribution of the burden which that deficit imposes. The three arguments for which the plan has usually been commended in Britain, however, are of varying authenticity. The first argument, that an improvement in social conditions in South Asia will remove the menace of Communism there, has little historical authority to support it; in cold fact, Communism is usually a disease of the second stage of economic development, which the Spender Plan will hasten. The second argument, that South-East Asia will continue to be a drain on the sterling area central pool until its resources are built up, is untrue; India's large deficit up to 1949 was mainly due to a misleading pattern of world exchange rates. The third argument, that Britain would fail in her duty if she did not aid the development of these areas by all means in her power, may be a just one, but it is not for the economist to pass judgment upon it; this remains true whether one defines duty in terms of who has a right to war-time accumulated balances or in terms of wider historical destiny. But duty must not involve the shouldering of haphazard, politically determined burdens that brought the sterling area to the verge of disaster in 1949 and could bring it there again.

Canada's Floating Dollar

By G. S. Dorrance

THE leading article in this issue of THE BANKER examines at some length the general arguments for and against fixed exchange rates. The objects of this article will be to assess the specific factors which induced the Canadian authorities to set their dollar free on September 30 last, to discuss what is likely to happen to the rate in the future, and to describe the first impact of free dealings in the Canadian dollar on the London market.

The Canadian authorities were faced last September with two main problems. The first of these was one for which most European Ministers of Finance might envy them. The Bank of Canada was acquiring too many United States dollars. In the first six months of the year their official gold and dollar reserves rose by $135 millions, compared with an increase of only $119 millions in the whole of 1949. In July the increase, at $85 millions, was more than eight times the average monthly increase of the preceding year. The August expansion, at $184 millions, was more than two-and-a-quarter times that of July. Finally, in September the Canadian reserves rose by $335 millions—a larger addition than the entire sterling area secured in the third quarter of this year.

The Canadians were also faced with a problem only too familiar to their European colleagues. The cost of living was increasing at an alarming rate. During 1949 the cost-of-living index had shown remarkable stability; it rose by less than 1 per cent. over the year and only varied within a range of about 3 per cent. during it. In the first eight months of this year it rose by 5 per cent. and there is evidence that this trend is continuing. Even more serious portents were to be seen in the movement of the Wholesale Price Index. In 1949 it had fluctuated within a range of 3 per cent. and had declined by 2 per cent. between January and December. During the first eight months of this year it rose by 8 per cent. The movement of world prices during the summer provided grounds to fear that it might rise still further. In any case it was obvious that the upward movement of wholesale prices would shortly be reflected in further rises in retail prices—and retail prices are a subject about which the Canadian Government is particularly sensitive.

Once before, in July, 1946, the Canadian authorities were faced with the danger of a serious price inflation due to conditions outside the country. On that occasion they carried out a straight appreciation of the exchange value of their currency. Quite apart from the fact that this step was not very successful, there were a number of unusual circumstances which prevented them from taking the same medicine this time. The most obvious is to be found in the paradox that the Canadian surplus on current account had been less favourable during the current year than in the preceding one, although foreign reserves were accumulating rapidly. The Minister of Finance explained in his broadcast after freeing the rate that the greater part of the inflow of funds was on capital account, much of it apparently of a highly speculative nature. Some evidence regarding the nature and effect of this movement is to be found in the movement of the official index of common stock prices from 131 on August 3 to 140 on August 31.

The authorities were therefore placed in a serious predicament. It was clear that revaluation should do something to reduce the cost of living and to stop the inflow of foreign funds. These funds, apart from their undesirable inflationary effects, represent involuntary borrowings by the Canadian economy; they do not directly foster the development of productive resources although they entail the future payment of foreign debt charges. On the other hand, the authorities were faced by the fact that if the Canadian dollar did go to parity with the American, as the speculators expected, then a large part of this speculative foreign capital might be converted into foreign exchange and withdrawn. The large increases in reserves might prove to be illusory and be followed by swift decreases; perhaps a speculative movement the other way would set in and a depreciation would be forced on the authorities. In other words, it was possible that they were facing a future in which any fixed rate of exchange might well be subject to pressure one way or another.

An appreciation would also have tended to worsen the Canadian balance of payments. It has already been pointed out that, despite the devaluation of the Canadian dollar in September of last year, the current account surplus has been lower in 1950 than 1949. The prospects do not provide ground for optimism about its future improvement. The Canadian investment boom is continuing at its previous high pace; for the third year in succession Canada is devoting a higher proportion of its national income to fixed investment than any other nation—with consequent pressure on the balance of payments. The recent movements in world prices will also create serious difficulties for Canada. While she exports considerable quantities of industrial raw materials, agricultural foodstuffs still form an extremely important part of her foreign

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
(Incorporated with Limited Liability under the Laws of the U.S.A.)

The experience of the Chase Banking organisation, and its contacts throughout the United States, are at the disposal of all those conducting Anglo-American trade.

The Chase Banking Organisation has Branches in:
HAVANA, SAN JUAN-PORTO RICO, PANAMA, COLON, CRISTOBAL, BALBOA, HONGKONG, SHANGHAI, TOKYO, OSAKA
41, RUE CAMBON, PARIS, FRANKFURT/MAIN, HEIDELBERG, STUTTGART
Special Representatives in
MEXICO CITY D.F., BUENOS AIRES, ROME, CAIRO and BOMBAY
CORRESPONDENTS THROUGHOUT THE WORLD
Main London Branch:
6 LOMBARD STREET, E.C.3
Bush House Branch:
ALDWYCH, W.C.2
West End Branch
51 BERKELEY SQUARE, W.1
The Chase National Executors & Trustees Corporation, Ltd., 6 Lombard Street, E.C.3.

sales. Prices of these products have been tending to fall in recent months. On the other hand, her imports consist largely of industrial raw materials which have seen record-breaking price increases in the same period. Thus it appears likely that a serious " terms-of-trade " problem will arise in the near future. In addition, Canada has voluntarily undertaken to bear an additional balance of payments burden. On September 8 the Canadian Parliament voted up to $300 millions to be spent on financing foreign purchases of defence supplies in Canada. Finally, the Government has decided that, on January 1 next, it will remove all of the import restrictions imposed in 1947, except those on the purchase of capital equipment—and it is hoped that even these will be materially relaxed in the near future. With these prospects confronting them the Canadian authorities could not lightly contemplate a significant upward revision of the par value of their currency.

THE FUTURE OF THE RATE

In his announcement of the decision to set the rate free, the Minister of Finance indicated that he did not expect the rate to go to parity with the United States dollar straight from its existing value of $C 1.10 = $US 1.00. So far his expectations appear to have been realized. The free market has fluctuated at a point slightly above the rate $C 1.05 = $US 1.00; it remains to be seen whether this slight appreciation will entail any balance of payments difficulties. Meanwhile, however, the possibility that the rate may go to the pre-September, 1949, parity of $C 1.00 = $US 1.00 seems to be encouraging some of the speculative capital investment to remain in Canada. It is probable that the longer these funds remain invested, the less likely are they to be withdrawn. Immobility has a strong tendency to create inflexibility in the financial world as well as in other fields.

It is doubtful, however, if the new policy will succeed in achieving all its disparate aims. There is, indeed, an element of inconsistency in the whole experiment. If there is to be any appreciable downward pressure upon Canadian prices, which the authorities desire, the rate will probably have to go to a point which will lead to a considerable withdrawal of funds by non-residents, a prospect at which the authorities look a little askance. The best that can be hoped for is, perhaps, that the new regime will bring a halt to the inflow of funds that was thought to be exerting increasingly serious inflationary effects. Perhaps a breathing space will be given to the authorities which may permit them to take more direct and effective action to bring the inflationary situation under control. Already the Bank of Canada has raised its rate for loans to the chartered banks from $1\frac{1}{2}$ to 2 per cent. This action will have negligible effect upon the Canadian monetary system; bank rate is a much less important symbol in Canada than it is in Britain. However, it may be that this is the first of a series of steps to curtail the capital investment programme and to control present inflationary tendencies.

One other question should be mentioned before leaving discussion of the probable future of the rate. This is the question of whether the I.M.F. is likely to influence Canada to re-establish a par value as soon as possible. The part that the Fund has played so far has not been very great. The Minister of Finance announced that the Fund had been consulted on this proposal and that its Executive Board " examined the Canadian position with great objectivity ". He also admitted that the Board had only had sufficient notice to be able to consider it in the space of one Saturday morning. The I.M.F. was rather non-committal in its comment on the change. It "recognized the exigencies of the situation" and "took note of the intention of the Canadian Government . . . to re-establish an effective par value as soon as circumstances warrant". It should be pointed out, incidentally, that, publicly at least, the Minister had only said that the Government hoped ultimately to take such action.

Free Market in London

The Canadian decision involved the immediate establishment of free markets in Montreal and Toronto with the Canadian banks as principals trading in foreign exchange. The banks remained agents of the Foreign Exchange Control Board for the approval of purchases of foreign exchange by residents, and were also called on to ensure that residents sold their foreign exchange receipts to the market within 90 days of acquisition. A fortnight later, on October 16, a similar free market was established in London with the recognized dealers (chiefly banks) acting as principals on much the same lines. The market in London is formed by the banks and conducted by three brokers, who operate on a straight commission basis and are not permitted to adopt a position themselves. The banks are allowed to claim a commission from their clients and to make trading profits on their operations. They must report their position monthly to the Bank of England, who will presumably keep a motherly eye on them, but they are not required to settle outstanding positions with the Bank. In addition to dealing in the London market they can also deal in the Canadian market and it appears to be in this market that they clear their positions; up to now, however, they can only deal in Canadian dollars against sterling and no multilateral arbitrage operations are allowed.

Although this move towards freedom in at least one market has been welcomed in London banking circles, there are two points that must take some of the gilt off the ginger-bread. The first point is that so long as the present bilateral balance between Canada and the sterling area continues to run fairly heavily in favour of Canada, the market may be largely dominated by the Bank of England and the Bank of Canada. Canadian banks will not wish to accumulate an undue volume of sterling and settlement will only be possible by means of Bank of England sales of gold or United States dollars on the Canadian market (or to the Canadian authorities), and by Treasury drawings on the Canadian loan, while it lasts. The second point is that, since the British banks can only deal in dollars against sterling, the process of multilateral settlement will almost certainly tend to occur in the Montreal and Toronto markets rather than in London. Even before the war the Canadian dollar markets tended to be larger in Montreal and New York than in London, but the operation of United Kingdom exchange control is likely to ensure that a still larger proportion of the invisible income from this service will accrue to Canada rather than the United Kingdom. Despite these difficulties, however, it is generally agreed in the City that the results of the first week's free trading in London were heartening. The free market took over a Bank of England rate of \$2.95–\$2.97 to the pound on October 16 and had narrowed the spread to \$2.95¼–\$2.95¾ by the end of the first day. By the end of the second week the rate had strengthened slightly to \$2.94¼ to. \$2.94½—a spread of ¼ cent per pound being maintained. This narrow spread is an eloquent tribute to the survival of the London market's pre-war expertise.

Britain's Overseas Investments

By Peter Davies

DURING World War II and its aftermath Britain was compelled to dispose of many of her overseas assets in what was surely the most rapid and spectacular liquidation of capital in history. The consequences for her post-war balance of payments are well known—but the details of the liquidation itself have hitherto remained hidden in the records of the Bank of England. These details have now been pieced together by the Statistical Office of the Bank in a survey* that must have taken many months of painstaking research and tabulation. The Bank's figures, it must be emphasized, make no attempt at estimating the total real value of Britain's outstanding overseas investments. They show merely the nominal value of British-held securities of foreign Governments and of enterprises operating wholly abroad. The figures therefore greatly overestimate the value of some investments (such as pre-war loans to Europe) whose substance has been blown to smithereens in the war and they greatly underestimate the value of securities of enterprises that are still doing well. They exclude altogether the value of British investments overseas which are not expressed in terms of marketable securities. Nevertheless the Bank's figures, which follow the line of research pioneered by Lord Kindersley before 1938, provide much more official information on Britain's post-war overseas investments and income than the only previously available source—the brusque pages of the Balance of Payments White Paper.

TABLE I

OVERSEAS INVESTMENTS AND INCOME, 1938–48

(£ millions)

	1938		1946		1948	
	Nom. Capital	Income	Nom. Capital	Income	Nom. Capital	Income
Government and Municipal Loans ..	1,521	55.1	859	27.0	797	23.7
U.K. Companies: Share Capital ..	817	48.6	748	44.1	596	52.1
,, Loan Capital ..	367	11.4	255	10.1	119	6.3
Overseas Companies: Share Capital ..	473	29.3	303	24.2	304	30.8
,, Loan Capital ..	368	11.0	164	4.6	144	3.5
In Commonwealth Countries ..	1,998	102.7	1,199	68.2	1,111	71.7
In Foreign Countries	1,455	40.3	1,035	34.1	749	36.0
Not Classifiable by Area	93	12.5	95	7.8	99	8.6
TOTAL	3,545	155.4	2,329	110.1	1,960	116.4

The Bank is careful to point out, however, that its estimates of overseas income differ from the estimates in the Balance of Payments White Paper, which are less detailed but much broader in scope. In 1938 and 1948, for instance, the White Paper put "Interest, profits, and dividends" at £205 millions and £174 millions respectively, while the corresponding figures shown by the Bank are £155.4 millions and £116.4 millions. The White Paper figure covers all remitted earnings (including management expenses at home for United Kingdom companies, reserve allocations, and profits and excess profits taxes), as well as funds remitted through London to meet interest and other payments on sterling capital held overseas; its only important exclusions are the earnings of United Kingdom insurance, shipping and oil companies. The Bank, on the other hand, excludes companies operating both at home and overseas, because of the difficulty of isolating that portion of their capital which should properly be regarded as invested abroad. Despite the incompleteness of the figures, however, some interesting information about the liquidation of British assets in the war can be drawn from the Bank's survey and—with a little research—some interesting deductions about the probable present market value of British overseas investments can be made. This information is summarized in the three tables accompanying this article.

---

* See *United Kingdom Overseas Investments*, 1938-48, obtainable from the Bank Secretary, price 2s., post free.

Table I shows that over the ten years surveyed the nominal value of British overseas investments declined by £1,585 millions, or by nearly 45 per cent. It also shows, however, that the income earned on these securities fell by £39 millions, or only 25 per cent. This relatively small fall in income arose from the fact that the securities sold to finance essential imports were, on the whole, high-class bonds, yielding a comparatively low return (the exceptions were some holdings in the United States and in Argentine railways). Thus, the proportion of share holdings rose from 36 per cent. in 1938 to 46 per cent. in 1948. In the latter year, moreover, dividends were generally higher. However, even in 1948 a large block of these shares—chiefly in Europe and the Far East—were yielding no return, while a further portion, concentrated in Latin America, were yielding 1½ per cent. or less.

TABLE II

OVERSEAS INVESTMENTS AND INCOME, 1938–48, BY TYPE OF ACTIVITY

(£ millions)

	1938		1948	
	Nom. Capital	Dividends and Interest	Nom. Capital	Dividends and Interest
Railways	836.2	17.8	241.5	8.2
Banks	62.2	4.1	54.9	5.0
Commercial and Industrial	159.4	10.8	133.9	11.8
Financial Trusts, Land	127.6	4.2	95.1	6.0
Gold Mines	91.0	13.1	83.0	7.3
Other Mines	96.3	8.2	83.7	13.7
Oil	123.8	17.4	135.7	17.4
Rubber	81.9	3.5	78.2	2.3
Tea and Coffee	42.4	3.3	39.4	3.9

Geographically, the principal fields of liquidation between 1938 and 1948 were India, Pakistan, Canada, New Zealand, Argentina, the United States, Mexico and Brazil. Some £1,273 millions of the total disinvestment of £1,585 millions occurred in these countries; in each of them reductions in the nominal capital value of British-held securities exceeded 50 per cent. and in India, Pakistan and Argentina they exceeded 80 per cent. The changing distribution between leading fields of economic activity is shown in more detail in Table II. (Certain holdings in the U.S.A. are excluded owing to difficulties of nomenclature in the Bank's survey.) It will be seen that railway securities, consisting of a high proportion of low-yield debentures, accounted for about one-third of total nominal disinvestment between 1938 and 1948. In contrast holdings in rubber, gold mines, other mines, and in tea and coffee have not fallen greatly—and in oil they have risen. The investments retained are in many cases in those activities that have fared well in the post-war period.

The Bank records that the war and post-war decline of £1,585 millions in nominal capital between 1938 and 1948 brought in £1,352 millions cash to this country. This remarkably small difference is due to the fact that although some assets were sold at knock-down prices (for example the Argentine railways, with a nominal value of £248 millions, were sold for £150 millions cash), others brought in handsome premiums over nominal values. In Table III, I have tried to assess, from their yields, the market value of securities held in five countries that now account for £843 millions (or over 40 per cent.) of nominal holdings outstanding. The basis of capitalization is the average yield on long-term Government bonds in 1938 and 1948 in the countries selected, with appropriate allowances for "spread" in respect of yields on private loan and share capital. Despite its obvious crudity the attempt seemed worth making. The table suggests that in these five countries (all of them countries unravaged by war) the real value of British marketable investments is some 63 per cent. greater than their nominal value compared with a premium of only 6 per cent. over nominal values before the war. Since the Bank estimates showed that these five countries yielded 41.3 per cent. of listed income in 1938 and 43.3 per cent. in 1948, total market values of British overseas investments may, on a very rough estimate, have been of the order of £4,000 millions in 1938 and £3,180 millions in 1948.

TABLE III

ESTIMATED NOMINAL AND MARKET VALUES COMPARED

(£ millions)

	1938		1948	
	Nom. Capital	Estimated Market Value	Nom. Capital	Estimated Market Value
Australia				
Share	48	65	40	99
Loan	472	493	357	411
Total	520	558	397	510
Canada				
Share	116	116	84	125
Loan	304	324	78	81
Total	420	440	162	206
U.S.A.				
Share	204	193	64	227
Loan	58	35	11	7
Total	268 *	228	75	234
Brazil				
Share	49	12	38	20
Loan	115	9	44	15
Total	164	21	82	35
South Africa				
Share	88	292	102	354
Loan	111	123	25	36
Total	199	415	127	390
	1,571	1,662	843	1,375

* Discrepancy due to rounding in Bank Survey.

The results accord with the observations made earlier that many of Britain's overseas assets are booming now—just as many of them fetched good prices when sold *en masse* in her hour of need. This is an eloquent tribute to the shrewdness of the Victorian investor and his descendants. It was indeed ironical that on the same day that the Bank's survey was published Mr. Aneurin Bevan should be telling the Labour Party at Margate that Britain no longer has need of the "merchant bankers, the financial buccaneers, or the Cecil Rhodeses".

Risk Factors in "Foreign" Banking

V.—Security Sales and Purchases

By A Special Correspondent

THE risks on security transactions undertaken by foreign departments of British banks have been greatly increased in post-war years by exchange restrictions at home and abroad. These restrictions have severely limited transactions that were a considerable source of income. They have also called for increased staff to cope with the routine work entailed by the Exchange Control Act as well as for a high proportion of men of more than average intelligence to interpret the regulations. These requirements are becoming increasingly difficult of fulfilment.

It may at first seem surprising that there should be any risk of loss to banks from security transactions by the foreign department—apart, that is, from losses due to negligence. Securities, after all, are bought, sold, delivered and received in accordance with customers' instructions and all the bank has to do is to comply with those instructions. Apart, however, from risks arising from changing regulations, with which this article will be mainly concerned, there is much scope for difficulties of interpretation. Just before the war, for example, in a period of falling markets, a cable was received at one bank from an overseas customer, to whom reference back was impossible. The cable read: " Sell all my Kaffirs ". The verifying of his holdings and passing of his sale orders presented no difficulty, but the dealer found, on examining his limit book, that the seller had orders outstanding for the purchase of Kaffirs at prices below those then ruling. He had, therefore, to determine whether the seller intended getting out of the mining market altogether or re-entering when prices fell. A review of the previous operations of this particular client showed that he was not in the habit of rapid profit-taking, and it was decided to cancel the purchase orders—a decision which fortunately proved correct. This is but one of many cases drawn from practical experience where judgment—and some detective work—have been necessary.

Post-war conditions, however, have piled on top of this continuing need for judgment a new need for very special expertise and knowledge of the differing regulations of many foreign countries. In this article attention will be drawn to some of the main pitfalls involved in the purchase and sale of securities for customers of the foreign departments. A subsequent article will examine pitfalls connected with the collection of dividends and with the receipt, delivery and custody of securities.

Generally speaking, the risks involved in purchases and sales of securities in the United Kingdom are not as great as those involved in purchases and sales abroad. Provided that instructions are carefully followed and the requisite licences obtained on behalf of non-residents, most risks can, in fact, be avoided. There is, however, one difficulty that cannot be overcome merely by complete compliance with the Exchange Control Act—the difficulty connected with the transferability of securities for sale or purchase. If a foreign client sends a bank an order to sell certain shares registered in his name, the bank must ensure from the registrar of the company that there is no disability attaching to the holding. If the bank receives a purchase order, it must be certain that the registrar will accept registration on behalf of a foreigner. Failure to take either of these precautions may result in a later cancellation and a dispute over who should bear the expense (in many cases, quite unfairly, the broker is the victim). Although the bank does not always bear the risk itself, trouble of this kind is to be avoided.

There are also pitfalls in transactions that at first sight appear to require no licence or formality. An example that might be quoted is a purchase order from a person not resident in the United Kingdom covering, say, Japanese 5½ per cent. sterling bonds. When this security is delivered by the broker it will have Form BUK attached, requiring a declaration that the buyer is resident in the United Kingdom, or maintains an American account; a dollar option is attached to Japanese 5½ per cents.—an awkward point that is often forgotten. It will be noted that the ban here is on persons not resident in the United Kingdom. It is a common error to suppose that residents in other parts of the Scheduled Territories can deal as freely in this country as United Kingdom residents. This, however, is not true of " Prescribed Securities " (those payable in Swedish, Swiss, Belgian, Canadian or American currency); these securities, whilst they may be freely sold by, for example, a resident of South Africa, may not be bought by him. Many experienced dealers, who are well acquainted with this point, can be unaware that certain sterling issues have currency options and are therefore " Prescribed ". A careful examination of the Stock Exchange Year Book is recommended in all cases of doubt.

Orders from other parts of the Scheduled Territories contain another pitfall when the securities offered for sale are Canadian. The facility of reinvestment in Canada, whilst not available to U.K. residents, is in many cases allowed to residents of other parts of the Scheduled Territories. This means that if the shares offered for sale are quoted in London at about parity with their Canadian price, it would be profitable to switch in Canada into a share commanding a considerable premium in London. Bank of England consent is usually subject to permission being obtained from the local control, but cabled advice that this has been granted is accepted and the order should be passed to one of those brokers who specialize in these transactions. Another problem of the same sort arises from a difference between South African and British regulations. The issue of M. licences, which was discontinued in this country in 1947, continues in the Union. If a non-resident gives an order for the purchase of South African securities, therefore, it should be passed to the foreign dealer for execution in Johannesburg, where a licence will be issued which will enable the security to be freely sold later. The difference in price abroad between South African securities with M. licences and those which are subject to compulsory reinvestment in the event of sale is appreciable, and this difference would be the measure of the loss suffered by a non-resident customer whose order was wrongly executed in London.

Purchases and Sales Abroad

Purchases and sales of securities abroad involve many more difficulties than do purchases and sales in London. The dealer has to grapple with a new set of regulations and he may have to exercise discretion in finding the best market. Moreover, he is dealing with securities that often cannot be examined by both the interested parties—that is, by the bank giving the order and by the foreign correspondent carrying it out. The London bank cannot examine the securities to be sold when they are deposited abroad and the foreign correspondent is similarly placed when he receives cabled instructions to sell securities that are to be shipped to him. The first difficulty can be overcome by examining the correspondent's original advice of deposit before giving instructions. The second difficulty, however, requires the most careful consideration. It is a good rule to avoid giving sale orders by cable when the securities to be sold cannot reach the agent until after the sale has been carried out. The danger, of course, is that, despite the most careful description, it may be necessary to cancel the sale because of some disability that becomes apparent only after arrival—and buying back can be expensive.

Three common pitfalls can be cited: First, bearer securities cannot be sold unless the proper coupon is attached. Secondly, in the case of shares of a foreign company whose capital has been reduced, it is all to easy to send out old share certificates that should have been exchanged; only when the shipment arrives will it transpire that too many shares have been sold. Thirdly, some shares in "American" form may turn out, on presentation to the company, to be ineligible for transfer, perhaps owing to the decease of the registered holder, or to a "stop" by an overseas equivalent of the Custodian of Enemy Property. Some of these traps (although not the third) can be avoided if care is taken in this country, but it is usually safest not to cable but to remit the security with instructions to sell after the correspondent has ensured it is "good delivery". Against this, however, a fall in price while the remittance is *en route* can be the subject of a complaint, and the banker must therefore exercise his judgment. Well-known shares in good "marking names", endorsed and regularly marked for dividends, present no difficulty—and nor do bearer bonds whose coupons are regularly paid—but books of reference should be closely studied in other cases before cabled instructions are given. The greatest care cannot overcome transfer difficulties and if the banker is in any doubt, he should insist on adopting the safe course of sending the certificates for sale after examination. Since the beginning of the war, caution in this respect has been more than ever necessary, particularly for sales in Canada and, to a lesser extent, the United States. If a customer is resident in this country and has American or Canadian shares registered in his name, a bank may think that there is no cause for enquiry. His address, however, as it appears in the books of the company, does not appear on the certificate and

CAPITAL PROTECTION ANNUITIES
the modern form of Annuity
issued by the
SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY
35 ST. VINCENT PLACE
GLASGOW, C.1
17 TOKENHOUSE YARD
LONDON, E.C.2

the registrar may well have recorded an address in enemy or formerly enemy-occupied territory. In this case the transfer will require lengthy formalities.

While dealing with the sale by cable of securities held in London, the particular case of International Nickel Preference shares is worthy of mention. In London the quotation is for shares of \$5 par value; special certificates were issued for the London market and purchased to a considerable extent before the war for foreigners, who cannot now sell them in London. These customers are now obliged to sell them in Canada or in the United States, where the quotation is for shares of \$100 par value. Any cabled instructions must therefore specify the par value, otherwise there will be danger of selling twenty shares for every one held.

Finding the Best Market

The problem of finding the best market is another that has been affected by the growth of regulations. Before the war, international shares had several markets and it was possible to find appreciable differences in prices, but to-day the market is usually decided by what the regulations permit. Although bankers should not enter into the devious transactions that make possible the sale of foreign securities they should understand how dealers in foreign securities are able to dispose of them. These dealers are limited in number but they include some well-known members of the London Stock Exchange. Different dealers can offer startlingly differing prices for securities offered. Moreover, the degree of elasticity shown by the Bank of England in granting licences is constantly changing. This means that bankers must by regular enquiries keep themselves informed of opportunist markets.

The best markets for securities of different countries vary widely. American securities present no problems, as the premium is officially quoted, but it is not always realized that sellers of Swiss and Belgian securities can obtain United States currency and invest it in New York in Canadian stocks that have official quotations here, in New York and in Canada. Since the price in London is, of course, at a considerable premium, the banker who receives Swiss or Belgian securities for sale must find out the few specialist firms in this market, get prices from each and accept the best. Similar conditions affect German and Japanese dollar bonds, whose market was in New York, where dealings in issues of enemy governments are no longer allowed. The Bank of England allows sale of these in Switzerland and subsequent reinvestment facilities. Here again, the specialist firms should be used.

Branches whose resident customers give orders for the sale of Dutch securities should be advised not to offer them indiscriminately in the London market as the specialist firms can sometimes arrange " barter " deals with Dutch owners of sterling securities; in these cases the seller can obtain a price very close to the more advantageous Dutch price. These transactions are approved by the Bank of England, provided both parties have been the continuous owners of the securities in question since September 3, 1939. Particular care is necessary with Royal Dutch Petroleum and Unilever N/V, which have official London quotations; it is all too easy for the unthinking dealer to offer these securities to an ordinary broker and thus lose the possible advantage of selling in Holland.

French securities can only be sold in France provided the proceeds are reinvested or credited to a " capital account ". Nevertheless, for some time there have been buyers in London who offer a premium for such securities, and again the services of the specialist firms should be used. Italian securities can be sold in Italy for credit to " foreign account ". Although money in these accounts is not remittable in sterling, it is in demand by the tourist agencies, especially in this Holy Year. At present foreign exchange dealers welcome the " foreign account " lire, and sales of this sort should be dealt in direct with an Italian correspondent. Until fairly recently, the specialist firms were arranging " barter " deals for Italian securities as with Dutch securities, but there were long delays during which losses were incurred by severe falls in the Italian market. Direct dealing, with a small sacrifice in the rate of exchange, is, therefore, preferable, but bankers must keep themselves informed of the marketability of " foreign account " lire—especially in view of possible changes when the tourist season comes to an end.

Various other foreign securities can be sold in the most surprising ways, usually because they can be sold for dollars, even though not officially " prescribed ". This makes them attractive to non-residents with " free " sterling that cannot be used to buy dollar securities in London. If a banker knows the basis of an eventual dollar sale and knows what premium the non-resident will pay to acquire dollars, he can judge whether the specialist is offering a fair price. He should, however, leave all the intermediate transactions to the specialist and accept his price, after verifying from two or three other quotations that the best bid is obtained.

It is true, of course, that if a banker fails to get the " best price " for his customer under the difficult conditions here described, he is not usually liable to meet claims put in against him—particularly in view of safeguards contained in agreements signed by customers when lodging securities. But the good banker will not shield himself behind the argument that customers should give special instructions if they want unusual methods of dealing to be used in order to obtain certain advantages.

These problems, however, are not the prerogative of the foreign department. In particular, due regard should be paid by ordinary branch bankers to the pitfalls attached to the non-negotiability of foreign securities that, to all outward appearances, suffer no disability. This subject may assume considerable importance when such securities are offered as cover for loans or overdrafts. Similar considerations apply to problems connected with the collection of dividends and the receipt, delivery and custody of securities for customers—all of which will be dealt with in a subsequent article.

THE construction and maintenance of a staff pension scheme to suit individual requirements is a specialist task. Have your scheme —large or small—built to order by experts.

The Scottish Temperance & General Assurance Co., Ltd.

Pension Departments
Head Office:—109 St. Vincent St., Glasgow. Central 5611/2/3
London Office:—17 King St., London, E.C.2. Metropolitan 8313/4/5

SCOTLAND:

An Economic and Industrial Survey

Industrial Progress and Problems

By C. Macrae

IN the vigorous and varied life of Scottish industry the two predominant themes at the present time are the purposeful expansion of Scotland's industrial content and the development of exports, particularly to dollar markets. The shape and the needs of the present have grown out of the past. Many of Scotland's present industrial problems are due to the unevenness of her participation in two previous phases of what is conveniently, though perhaps not very accurately, known as the Industrial Revolution. Her industrial prospect depends to a great extent on the part that she can play in the third phase now beginning.

The predominant characteristics of the first phase of modern manufacturing were the application of steam power to production and the large-scale exploitation of iron and other common minerals. This was the age of the birth and growth of the heavy industries, of the building up of capital goods industries and of transport systems. Scotland, fortunately rich both in inventors and in enterprising business men, with extensive deposits of coal and useful deposits of iron, played a leading part in the development of the heavy industries. Great iron-founding, steel smelting, shipbuilding, locomotive building, marine and general engineering industries were rapidly established and there was extensive development of mining and quarrying. The new mechanical methods were applied both to traditional and to new textiles; there was lusty growth in the Scottish woollen, cotton, linen and jute manufactures, with their variants such as hosiery, carpets and lace. There was also progressive development in many other industries such as printing, publishing, the manufacture of paper and paper products, of furniture and other household goods, of personal requisites such as boots and shoes, in food preparation, distilling, brewing and tobacco blending. In this period the age-old industries of agriculture and fisheries also developed new methods that greatly increased productivity. The industries which grew up or were strengthened in this phase are still, and will in the foreseeable future remain, the mainstay of the Scottish economy.

As the new industrial processes were more widely applied and progressively adapted, however, lighter, and particularly consumer goods, industries developed very greatly in importance. These consumer goods industries were peculiarly the industries of the second phase of development, the central feature of which was the discovery of methods of generating and distributing electrical power. The ease with which electrical power could be transmitted over long distances changed the balance of factors governing the location of industry. The new industries were not, like the older heavy industries, tied to the coal fields, the iron fields or the seaports. For many of them proximity to large markets, or, in other words, to large centres of population, was much more important than proximity to raw materials. This inevitably meant that more and more of them tended to congregate around London and the Midlands. Partly because of this and partly because Scottish resources were already committed so wholeheartedly to the heavy industries, Scotland did not figure nearly as prominently in this second phase of industrial progress as she had done in the preceding period when the heavy industries were growing. Some new enterprises were set up in lines such as chemical manufacture (particularly explosives), dyestuffs and fertilizers, and in the aluminium, linoleum and rubber industries, but there was no expansion comparable to that in the Midlands and South-East of England.

In the meantime the older heavy industries had been imitated in many other parts of the world, including countries with natural resources very much greater than those of the United Kingdom. Britain's heavy industries had to meet fierce and increasing competition, and, being dependent on world markets, they were peculiarly susceptible to conditions of world depression. This was particularly the case between the two world wars, when Scotland, with insufficient light industry to cushion the effects of recession in the heavy industries, suffered severe unemployment and industrial dislocation. In these circumstances it became clear that energetic steps must be taken to develop new light industries. This was one aim of the Scottish Development Council, which was founded in the early 1930s and is now incorporated with the later Scottish Council on Industry in the Scottish Council (Development and Industry). The Development Council, fortified some years later by the Government's Special Areas legislation, pioneered the way for the establishment of the first industrial estates in Scotland. New industries were beginning to grow on an encouraging scale when the second world war broke out. In the early years of the war most new production was located in the south, but after 1941 large numbers of important new undertakings were attracted to Scotland and many of them have stayed on in peacetime. Moreover, Scotland, like other Development Areas, has benefited very greatly from the Distribution of Industry Act, 1945.

The present picture is therefore immeasurably more cheerful than that before the war. The water power of the Highlands is being harnessed by the North of Scotland Hydro Electric Board and other potential sources of power, including peat, are being explored. Already there are seventeen Government-financed industrial estates in Scotland with factories either in occupation or being built. On five other estates site clearance is in progress. The factories already in operation on the industrial estates give employment to some 42,000 people and it is estimated that they will ultimately employ about 100,000. Many new factories have also been established outside the industrial estates and a wide range of industries has been developed. There have, for example, been extensive increases in the manufacture of petrol, diesel and electric engines; of radio and electrical devices; of vacuum cleaners, refrigerators and a wide range of domestic and kitchen equipment; of electric shavers, clocks and watches, typewriters, cash registers and other office necessities; of die castings, light alloys, aluminium sheets and hollow-ware, prefabricated houses, ball and roller bearings, radio condensers, agricultural machinery, glass containers, bottling machinery, photographic equipment, scientific instruments and a growing number of souvenirs and toys. New types of textiles, including fabrics made from glass and ground nuts, are being produced, and there has been considerable expansion in the food preservation industries. All this has meant that new employment has been created for large numbers of people.

Unemployment, particularly among men, has not, however, been eliminated and it must be remembered that the fact that an industry is able to employ people profitably now does not necessarily mean that it would be able to do so if boom conditions subsided. It is therefore necessary, when introducing new industries, to endeavour to select those that appear to be most economic in the sense that they will make the fullest contribution both to existing needs and to future growth. The Scottish Council is now undertaking investigations to discover what are the major gaps in the Scottish industrial structure, what are the industries in which additional capacity or new types of capacity are definitely required, and what are the types of production that will make the largest contribution to progressive industrial growth in the future. These investigations have already set afoot important developments in such fields as the production of agricultural machinery, glassware, surgical equipment, electronics, heavy and light chemicals, and other selected industries.

This type of selective growth is particularly important since the world is now in a third phase of industrial development, dominated by the application of science to industry. Science is now the dominant factor behind the growth of new industry and, to a large extent, of new development in existing industry. Although some Scottish industries and firms have research departments comparable with any in the world, research effort in Scotland in the past has not been as widespread as it should be. This is attributable in no small measure to the fact that the Government until recently followed the policy of concentrating its own vast scientific effort, amounting to half of the total scientific effort of the country, in or around Greater London. Fortunately, the Government has now accepted the argument of the Scottish Council that a reasonable dispersal of the research effort of the State, both directly in its laboratories and indirectly through its research contracts, is vital in the public interest both in war and in peace. The biggest new industrial laboratory to be built by the Government since the war, the Mechanical Engineering Research Laboratory, has therefore been located at East Kilbride; assurances have been received that a fair proportion of the development contracts of the Supply Departments and the Boards of nationalized industries will be placed in Scotland, provided capacity can be found or created to undertake these contracts efficiently; and the Departments are co-operating in a strenuous campaign to develop such capacity, both by building up and expanding what already exists, and, where this is impossible, by bringing in new research and production effort from outside.

Ambitious steps are also afoot to encourage existing English, continental and—perhaps most interesting—North American firms to establish branch factories in Scotland. There are already 18 factories in Scotland operated by United States or Canadian corporations, the great majority of them established since the war. The Scottish Council, assisted by E.C.A., is making great efforts to attract other investment by North American firms, particularly in the mechanical engineering, precision engineering, electronic, and chemical industries. There are also encouraging signs that many North American corporations may wish to have production undertaken under licence for them over here. In association with E.C.A., the Scottish Council now has measures in hand to put these American firms into touch with Scottish firms anxious to undertake such contracts under licence.

There is also good reason to hope that it may soon be possible, with the aid of science, to turn to good account Scottish resources that have hitherto not seemed to justify commercial exploitation. The most interesting experiment in this field is the extensive programme which is at present being carried out by the Scottish Seaweed Research Association, supported by financial grants from the Government; its object is to develop the harvesting of seaweed on an economic basis, to supply a large-scale seaweed processing industry. In addition, the Mineral Resources Panel of the Scottish Council is engaged on a programme of surveying, sampling and costing unused Scottish minerals to ascertain the possibilities of utilizing at least some of them economically.

SCOTLAND'S EXPORT EFFORT

In these and other ways much is being done to develop and enlarge production in Scotland. It is not, however, enough for Scotland merely to produce the goods. She must also sell them. Scotland has always been an exporting country and though reliable statistics are very sparse it is generally agreed that Scottish exports per head of employed population in the past have normally been greater than those in the United Kingdom as a whole. It is necessary now for Scotland to export more than ever, not only to keep the production of her industries at their existing level and to help earn yet more dollars, but also to secure the economies of large-scale production; industries which aimed at serving the Scottish market alone would not always enjoy these economies. In the measures the Scottish Council is pursuing to build up new industries in Scotland, such as electronics, chemicals, agricultural equipment and others, the need for developing very much larger markets than Scotland herself can provide is taken into account; the very considerable expansion of production of agricultural machinery, in particular, is deliberately based on the assumption that a large export trade can be developed.

Two important weapons in Scotland's struggle to export are quality and novelty. In the production of high quality manufactures and merchandise Scotland already stands high. Scottish textiles, Scottish ships, Scottish engineering products, Scottish whisky, or, in another field, Scottish insurance, to name only a few random instances, are held in high esteem throughout the world. It is part of Scotland's task to enhance and enlarge this reputation for

THE NEW ZEALAND INSURANCE COMPANY, LTD.

ESTABLISHED 1859 INCORPORATED IN NEW ZEALAND

BRANCHES AND AGENCIES THROUGHOUT THE WORLD

London Office : 37/39 LIME STREET, E.C.3

quality, to widen its range and to bring, so far as possible, all products up to the level of the best. Another of her tasks is to produce and to keep on producing new types of goods. So long as the goods remain novel they will enjoy in effect a monopoly demand. No doubt in an increasingly industrialized and imitative world they would soon be copied elsewhere, but by then Scotland must be ready with still newer products. If this is to be done the country must look above all to its scientists and inventors. In the field of exports also, therefore, the massive and determined campaign to increase industrial research and advance technological skill is of great importance.

The Scottish Council has naturally always devoted a large part of its attention and its efforts to the promotion of exports from Scotland and particularly of exports to the dollar markets. It helps exporters both indirectly, by putting them in touch with agencies such as the Exports Office of the Board of Trade, the Export Credits Guarantee Department, the Chambers of Commerce, the F.B.I., the banks, and so on, and directly, by negotiating for export licences, by obtaining sources of raw materials or components, market information, agencies, introductions, general advice about selling possibilities in overseas countries, and by many other means. Numerous enquiries received from firms abroad anxious to place orders for goods in Scotland are brought to the notice of the appropriate Chambers of Commerce, trade associations and firms. Action is also taken on matters such as securing the acceptance abroad of the marking " Made in Scotland " and obtaining the suppression of misleading overseas trade descriptions that imply Scottish origin—a matter of the utmost moment to a country depending so largely on the export of quality goods. Literature giving advice to exporters—and more particularly to potential exporters—on the one hand, or providing information likely to be of assistance to buyers from abroad on the other, is also prepared and disseminated on an increasing scale; particular attention has been drawn to the need of bringing into the export drive firms that have not exported in the past, including particularly the medium and small firms. In addition, Scottish export organizations have been set up, with the aid of local Scottish residents, in London, the United States and Canada, while the Council's Scottish Industries' Exhibition, 1949, was, of course, a great success.

All this is but part of Scotland's live and growing export effort. In addition to the measures already described, close contact is being maintained with representatives of United States and Canadian buying agencies in London; Scottish firms are being encouraged and, so far as possible, assisted to participate in exhibitions overseas; publicity material about Scotland is being circulated extensively over the world, including, in North America, publicity through the media of stage plays, films and radio programmes; possibilities are being explored of bringing forcibly to the notice of Scottish manufacturers good examples of American packaging and design; the Scottish banks have extended their services to exporters; and various other measures are being put into effect or are under consideration. Despite the lack of separate trade statistics for Scotland there is reliable evidence that Scottish exports to the United States and Canada have increased considerably in volume, and, despite devaluation, also in value in the past year. No effort will be spared to continue to increase them still further in years to come. Scotland is putting herself in trim to compete successfully in a world that may become increasingly competitive in years to come.

Scots Steel faces Scrap Shortage

By David Murray

WHILE the political battle over the future control of the steel industry has ebbed and flowed at Westminster this past year, Scotland has continued to derive much of her present prosperity from the steady boom in the industry's production performance and market prospect. It would be a mistake, however, to allow either the continuing boom or the political uncertainty, which is so broad a national problem that it will not be discussed here, to distract attention from one other emerging problem that may have a serious effect on the Scottish steel industry in the coming year. That problem is the threatened shortage of raw materials in general and of scrap in particular. It is against this disturbing background that the accomplishments of the past year must be viewed.

By far the largest section of the Scottish steel industry is the heavy section which makes raw ingot steel and fashions it into plates, sections, rails and semi-finished material for the local re-rollers. Production in this branch has flattened out at a rate of about 2,400,000 tons a year; it is lower than this during the holiday period in July and it can be expanded suddenly for short periods but 2,400,000 million tons seems to represent the mean output limit of the heavy Scottish steel trade under present conditions, with all the works going full out, where practicable on a continuous seven-day working week. This annual output is already 100,000 tons more than the total ingot making capacity planned for Scotland by end-1951 under the 1946 development scheme. New furnace plant at Clydebridge Steel Works, which is on the point of coming into production, will lift the capacity by another 175,000 tons a year. Despite a slight lull in enquiries earlier in the year, the trade had no difficulty in selling its output even before the defence programme inflated demand.

The blast furnace section of the industry, which turns out pig iron, is now little more than the handmaiden of the steel works, although it still makes just over 100,000 tons a year of foundry pig iron to improve the mixtures in the iron foundries. Apart from a few small capacity blast furnaces, pig iron output in Scotland is now largely concentrated in the three relatively large stacks of Colvilles, Ltd., at Clyde Iron Works. This concentration makes the output sensitive to stoppages for relining and improving, but these are fortunately infrequent; in fact, the two original furnaces put up when the works were modernized just before the war ran continuously for ten years. The total pig iron making capacity of the Scottish region may be put at about 750,000 tons a year, but it could be improved if supplies of coking coal and of processed coke were further assured. Though steel ingot output is now well above the 2,074,000 tons of 1920, which stood as a regional record until as late as 1948, pig iron production in recent years has remained far below the 1,369,000 tons of pig iron run out in Scotland as long ago as 1913. The marked decline, however, is due to changes in iron and steel making and using practices, rather than to decay. Scrap has ousted pig iron as the chief raw material for making steel, and steel itself has replaced it in many of its applications.

The iron casting foundries have been turning out 400,000 tons a year for a long time now. Their strength is now in the light and medium shops which specialize in goods for building and in household appliances, like stoves and grates; the Scottish industry produces about 40 per cent. of all builders' castings. Demand and prospects seem to be stabilized for the immediate future as a result of the Government's policy. The limiting factors are the supply of raw materials—pig iron, scrap and coke. Labour, too, is a difficulty, as the cast iron foundries have never properly recovered from the dispersal of their skilled men during the war, when steel counted for everything and cast iron for very little.

The re-rolling section of the iron and steel industry is not in quite such a settled state. The re-rolling mills buy semi-finished steel in billet form and work it down to sheets, small bars and profiles. The smaller firms in this section have found demand to be irregular. Some of the mills were troubled with short time, and about the middle of the year some of them shut down altogether. Here again, however, the defence programme may increase activity.

The small remnant of the wrought iron trade has had a bad time. Its business is to puddle forge pig iron into wrought iron, or to hammer and roll scrap wrought iron for similar uses. About the middle of the year, the largest surviving purely wrought iron firm, which had recently also turned to re-rolling steel to fill its small mills, closed down completely and paid off its puddlers; it has now re-opened to meet the renewed demand for light steel. The only wrought iron workers now left in Scotland are a corporal's guard in one of the branches of Bairds and Scottish Steel, Ltd. Though pressure from cheaper steel had long since brought the Scottish wrought iron trade to a state of decay, its virtual disappearance may hamper trade more than was thought. Although demand had fallen below a level sufficient to support reasonably economic working, it had not fallen entirely to zero. Wrought iron is still used industrially for making such things as chains and small gas tubes and its welding properties make it necessary to country blacksmiths for fancy iron work.

Market Prospect and Competitive Efficiency

The market prospect for the Scottish iron and steel industry seems bright. The biggest single stake of the industry is in shipbuilding and marine engineering; followed by re-rolling (with the emphasis on sheets); railways and rolling stock; structural, mining and general engineering; tubes, rivets, bolts and nuts. Direct exports each year come sometimes in front of, and sometimes behind, the last-named categories. All indications are that the demand for these items will be strengthened in the next few months.

Last year the output of Scottish shipbuilding yards was about 530,000 gross tons, against 778,000 tons in 1920, but against 440,000 gross tons in 1948; local shipbuilders have always maintained that they could increase output up to a million gross tons a year, given ample raw materials and the reasonable practice of all modern methods of construction. There are, of course, some difficulties ahead for shipbuilders. Ship repairing and reconverting activity have largely withered away to the normal level of making good the ravages of time and of the sea, and the fact that a big proportion of booming new demand is for oil tankers poses special problems. These difficulties about the distribution of the shipbuilding effort, however, do not affect the demand for steel directly. It is significant that the largest steel firm in Scotland, Colvilles, Ltd., is currently turning out almost as big a tonnage of steel plates (which are used largely for shipbuilding) as of all other items put together—14,000 tons a week of plates, against 15,000 tons a week of various shapes and sections.

The declared policy of the Government to expand power plants, to bring the railways up to scratch, to re-equip the coal mines and to build and fit out new factories in the Development Areas also sets up a big demand for Scottish steel and iron output. At present 50 per cent. of all the steam-raising boilers, 45 per cent. of all the steam locomotives and a good proportion of the wagons, 25 per cent. of all the coal mining machinery, with almost all the coal cutters made in Britain, come out of Scotland. Moreover, the development of hydro-electricity on a large scale has induced a strong local demand for gear and construction materials. The national drive to develop oil refining in Britain and to build up crude oil production in British controlled fields abroad has also reacted very powerfully on the Scottish steel trade, especially on the business of Stewarts and Lloyds, Ltd., the big tube combine. The prevailing spread between the price of scrap and of pig iron and the convenience of making large bulky articles near deep ocean water have led that firm to re-develop its Scottish works. They are now sharing in large orders for refinery material and oil country goods, and other Scottish engineers and structural firms are also well placed to secure a substantial share of the new oil business.

The Scottish section of the steel industry has kept up its competitive position *vis-à-vis* the English in recent years. Its one great defect, however, remains. None of the main Scottish works is on tidal water and only one may be said to be integrated, linking on the spot, coke processing, pig iron making, steel melting and rolling; this exception is the Clyde Iron Works (Clydebridge Steel Works of Colvilles, Ltd.)—and even it is not so intimately connected as some specially designed composite plants in England. If the Scottish steel trade had managed to establish composite iron and steel plants on the River Clyde years ago, its working costs would have been much lower than they are. But to migrate at this present stage is hardly practical politics. It has been estimated that it would cost about £62 millions to put up new works to turn out the equivalent of the existing Colville output. That burden would wipe out any site advantages. Against the disadvantage of insufficient integration, however, research in the Scottish steel industry has pushed ahead fast. One of its new products, born of such research, is a composite sandwich made up of a thin layer of stainless steel backed up with ordinary mild steel. This stainless clad steel has an expanding use in industry, in oil refining, brewing and distilling, food preparing and activities of the kind; it is likely to become a substantial dollar earner.

The Scrap Shortage

Despite the promise shown by production performance, market prospects and plant improvement, however, the Scottish iron and steel industry faces one very acute potential problem: that of uncertain supplies of raw materials. The blast furnace side of the business is now wholly dependent on imported iron ore and at the moment has difficulty in gathering together adequate supplies of good coking coal ; there are, however, ample reserves of ore abroad and reserves of suitable fuel in the immediate neighbourhood, so this problem should not be an abiding one. The Achilles heel of the Scottish steel industry is therefore its dependence on imports of scrap iron and steel. The Scottish steel works are now eating up scrap at the rate of about 40,000 tons a week, or, say, around 2 million tons a year. That is more than their whole output of steel ingots a few years ago. About a quarter of the raw ingot tonnage circulates back to the furnaces for re-melting. This means that about 600,000 tons of scrap a year is provided by the steel works themselves on the present rate of production. Of the remaining 1,400,000 tons required to maintain the present tonnage the home scrap trade furnishes only about half a million tons a year. The remainder, to the extent of some 900,000 tons a year, has been coming from abroad or from shipbreaking yards, in the proportion of almost three to one.

The increase in steel output since 1947 in the rest of Britain has been almost entirely based on a greater usage of scrap, and very largely of imported old iron. In Scotland the rise in output has been completely based on the melting down of old iron, the great bulk of which has come from overseas—especially from war-destroyed Germany. Last year some 700,000 tons of German and other foreign scrap were landed in Scotland. This figure cannot possibly be kept up over the average of future years. All factors point to this conclusion—the clearance of the war debris, the rising German steel output, the thriving and high-priced demand for old iron in Germany, the competition of the United States for the available surplus. Moreover, booming prices are tending to keep old boats afloat and hamper the shipbreaking that is of peculiar importance to the Scottish steel industry.

In brief, while the key to demand on Scottish steel-making resources is in full view at home, the key to its ability to fulfil that demand is hidden somewhere in Germany. Undoubtedly any sharp fall in the incoming shipments of old iron from Germany would bring the Scottish steel works down to a walking pace from the sprint which they have kept up these last two or three years. It would not be easy to have recourse to using more pig iron, for there are physical limits to pig iron making capacity and pig iron costs more than twice the controlled home price for scrap. To fill the threatened gap from scrap from home sources would mean that the local scrap gathering and preparing industry would have to be more than doubled.

Dependence on imported raw materials is not without its benefits at all stages of the economic cycle. There was a time when the Scottish pig iron trade practically kept itself in being because foreign ore was given away at bargain prices and shipowners carried it for next to nothing. Thanks to its position at the "front of the board" with handy ports, and to its scrap digestive capabilities, the Scottish steel trade has put on more weight since 1947 than most other sections of the British industry. But from now on necessity will have to be the mother of some pretty shrewd invention. The Scottish steel trade is now melting down about 12,500 tons of pig iron a week and is using 40,000 tons of scrap. If large-scale imports cease and the gap is not bridged from home sources, output, earnings and possibly employment will sag despite the excellent market prospect.

Fluctuations in Scottish Fishing

By C. J. Shimmins

THE fishing industry is not only one of Scotland's few indigenous industries; it is also the fountain head of a number of ancillary trades and an important customer of the Scottish section of many other industries. Such industries as fish meal processing, canning, box-making, net manufacture, ice manufacture, ship-building and shipping supplies, coal-mining, transport, insurance and banking all have a stake in the prosperity of the fishing ports. The industry gives employment, directly and in the main ancillary industries, to around 50,000 persons. Yet it always seems to be balancing on the edge of the pit of depression and sometimes, as in the summer of this year, it falls right into it.

In the first eight months of 1950 some 2,070,877 cwt. of white fish (and 1,643,683 cwt. of other fish) were landed at Scottish ports. These 2,070,877 cwt. of white fish were valued at £4,758,999, compared with landings of 2,111,384 cwt. valued at £5,199,400 for the same period last year. The average overall price per cwt. of the principal types of white fish landed for the first eight months of this year was approximately 46s., compared with 48s. 4d. in 1949, 49s. 10d. in 1948 and 21s. 11d. in 1938. In recent weeks prices have risen much higher and have averaged over 50s. per cwt. Prices are still, however, very much at the mercy of a supply that varies with the weather and other unpredictable factors and a demand that fluctuates according to the availability of eggs and other traditional competitors in the shops.

Until April 14 of this year, maximum prices for fish were laid down by the Ministry of Food and, under the same order, a transport levy of 10d. per stone was imposed on all landings of white fish; there was also a subsidy of 10d. per stone for fish caught in the inshore, near and middle water areas. Most people expected that the scrapping of this order in mid-April would lead to a steady rise in the price of fish. In fact it did nothing of the sort. Prices rocketed to record levels in a week, then they faltered and finally collapsed with a resounding crash that brought many thousands of pounds of losses to some of the fish merchants. In the succeeding weeks, prices fell further to utterly uneconomic levels and many trawl-owners laid up their boats. At Aberdeen, the principal white fish port in Scotland, a ban on foreign landings was imposed by the Fish Salesmen's Association at the end of May; the term "foreign" in this context extended to fish imported by direct consignment and to white fish landed from distant waters by any vessels that did not come from Aberdeen, British vessels included. Despite the ban, however, some foreign vessels have landed fish that have been sold through a salesman who is not a member of the salesmen's association.

In July, the Prime Minister announced that the Government intended to provide assistance to the white fish industry. The inshore and middle water catchers will receive financial help for a period of six months under a complicated subsidy scheme that will cost £1,700,000. Vessels up to 70 ft. in length will receive 10d. per stone for fish landed, the same rate as before controls were lifted. For vessels over 70 ft. and under 140 ft. in length, payment will be made on scales rising to a maximum of £12 per day and varying according to the gross earnings of each voyage and the number of days taken on it. There will be no financial assistance for larger long distance trawlers. The Government also proposes to set up a White Fish Authority to " regulate, reorganize and develop the white fish industry ". The members, who have been appointed in advance of the legislation, have already visited fishing centres throughout the country and have had meetings with representatives of the industry.

They are not going to have an easy task. There is no doubt that overfishing now represents a real menace. If mutual restraint were practised, some of the worst hit fishing grounds would soon be repopulated with fish and harvests would increase immeasurably; such restraint, however, is impossible in the absence of international agreement. Meanwhile the new authority will no doubt be confronted with a demand for special consideration from the trawl owners whose costs—due to the increased prices of fuel, gear, repairs and wages—are believed to have risen more than in any other major industry. A restoration of the 10d. per stone subsidy may eventually be decided upon. Meanwhile, the fish merchants will be pressing on the authority the need for heavier landings and the view that prices are too high. The Scottish merchants will also complain that they are handicapped with the existing transport charges to London and other English centres and may urge the re-introduction of a flat transport rate that would help them to compete with merchants in Hull, Grimsby and Fleetwood. It is expected, too, that some system of licensing for all new merchants in the trade will be introduced in future legislation or under the wide powers to be acquired by the White Fish Authority; at present there are a large number of such merchants, some of them working on a very small capital indeed.

The second important section of the Scottish fishing industry is the herring section. The Scottish summer herring fishing season this year was a disastrous one. The decrease of the catch in Scotland, covering the period from May till the end of August, was some 90,000 crans, while the decrease in the value of landings was £450,000. At the peak of this season's fishing the highest number of boats operating from Peterhead was only 55, compared with 98 a year ago; some four-fifths of the boats here are steam-drifters, which have much heavier overhead expenses than the modern motor boats. The value of landings at Peterhead was less than half that last year. Landings of herrings at Fraserburgh during the season were just under 73,000 crans, valued at £222,000, compared with 75,000 crans, valued at £287,000, last year. The highest number of boats operating from the port was 140, compared with 154 in 1949. The general reason for the failure has been the absence of good quality herrings in sufficient quantities. The situation has been so bad that it has strained some members' loyalty to the Herring Industry Board. Lack of markets has been another adverse factor; there was no curing market for Germany this year and only a very small klondyking contract was obtained. Few curers operated and only 108,000 barrels were filled compared with a curing target of 140,000 for this year and with 155,000 filled a year ago.

The fishing industry has had a long and checkered history, but it has perhaps never faced such grave production and marketing problems as it does now. It is impossible to believe, however, that, given energetic organization of its marketing activities (including a campaign to provide the consumer with ready-processed, easy-to-serve and attractive fish), potential demand for its product will not rise in the coming years of increasing world food consumption. The main task of the new White Fish Authority may be to tap that potential demand. Its responsibility will be the greater because of the importance of fishermen and fishing vessels in national defence and because unemployment in fishing would have far-reaching repercussions in many other industries with which fishing is closely associated.

Oil Refining and Scottish Industry

By W. M. Cumming

INVESTMENT in the oil industry in Great Britain is expected to cost £32 millions in 1950—about twice as much as investment in the industry in 1949. The importance of this expansion lies not only in the direct saving of foreign exchange it should initiate but, even more, in the great expansion of chemical production that will follow from utilization of the by-products of oil refining. Scotland should benefit extensively from these developments.

The use of both oil and coal as a fuel for the generation of power is dependent on the fact that they contain carbon in substantial quantities. Of the two sources of carbon, Britain has, fortunately, coal reserves to last for some three to four centuries, but it has little or no indigenous oil, although it has tried hard to find it. Some 75 per cent. of the world's requirements of oil, in fact, comes from America and a recent estimate puts the limit of reserves there at about 25 years.

The only other oil-bearing material is oil-shale of which the United States has prodigious reserves; it is only because of the threatened shortage of oil, however, that the United States is now turning its attention to the utilization of these oil-shales. In this country, on the other hand, shale, of which approximately 1.3 million tons are retorted annually, has provided up to about 5 per cent. of our national requirements of oil. Each ton yields about 20 gallons of oil. The shale oil industry in Scotland is the oldest in the world and was in operation ten years before the drilling of the first oil well in Pennsylvania. The centenary of James Young's famous patent, which gave birth to the shale-oil industry, was celebrated in Glasgow earlier this year.

Unfortunately, however, the refining of shale oil is relatively expensive. Oil usually requires refining by both distillation and chemical treatment in order to make it of service, particularly for internal combustion engines. If motor spirit, for example, was obtained by what is called " straight distillation ", then only about 15 per cent. of the crude oil would be available. The oil has therefore to be heated at comparatively high temperatures and pressures so that it can be " cracked "—that is, so that the more complex hydrocarbons are broken down into simpler and lighter hydrocarbons. (The original discovery of this may be attributed to a son of James Young, who found improved illuminating qualities in shale oil kerosene, when it was heated under some 20 lb. pressure.) This cracking process makes available some 60 per cent. of the crude oil as motor spirit and, when suitably treated, motor spirit of higher octane number. In the cracking of an oil, unsaturated gases and liquids are formed. These are substances which are highly reactive and which generally have to be excluded from the motor spirit or even from the heavier lubricating oil fractions to avoid gumming up of cylinders and storage tanks. In the case of shale oil, where the crushed shale, in passing continuously through the vertical retort, is subjected to high temperatures, there is considerable cracking of the oil constituents; crude shale oil is therefore highly unsaturated and may contain 20-25 per cent. of these reactive components. The relatively high cost of refining shale oil is largely due to the cost of removal of these constituents.

The disposal of the liquids, usually strongly acid liquids, that contain the unsaturated components, would have constituted another major problem for the oil industry. In some parts of the world, this intractable material was run to the sandy desert. Since they are so reactive in the chemical sense, however, these unsaturateds become important starting materials for the chemical industry. Alcohols, ketones, aldehydes and esters can all be produced by straightforward chemical reactions. Others can be polymerized, i.e. be made to react with themselves to give such products as synthetic rubber and plastics. It is thus obvious that the cracking process had, as its net result, not only the provision of more fuel of better quality; it was the beginning of the very large and important chemical industry that has carbon as its basic element—the so-called Organic Chemical Industry. The oil industry, in short, is becoming more and more the main source of chemical products for the manufacture of antiseptics, anaesthetics, drugs, detergents, insecticides and so on. A very large capital is sunk in this aspect of industry in America, where chemical factories are set down next door to the oil refineries.

In this country, coal has been practically the only source of carbon. The coal, when heated in a retort, yields gas (town's gas or coke-oven gas), a liquid product (tar) and a solid product (coke). The gas and coke can be sold as fuel, but the tar, 8-10 gallons per ton, provides us with the benzene, toluene, etc., for the manufacture of dyes and explosives. The Germans also used the coke (14-15 cwt. per ton), after gasifying with air and steam, as a starting material for the manufacture of chemicals; the number of products which they were able to provide during the war from this source was almost unlimited. Synthetic butter and soap were two examples. Hitherto, no large-scale production of chemicals from coke has been attempted in this country and the price of coal here may never allow such a process to be economically attractive. One of the most important industrial developments of recent times is, however, that the Americans have turned their attention to the use of natural gas and the waste gases at refineries, rich in the lowest members of this hydrocarbon family, as a source of the hydrogen and carbon monoxide mixtures that constitute the raw material of the German or Fischer Tropsch process.

Until recently, the policy of the United Kingdom has been to import its yearly 1,500 million gallons of motor spirit as a finished product. Only some 10 per cent. of our requirements was brought in as crude oil for refining. The result of this policy was that we lost the now valuable by-products that had to be removed in the refining process. This policy has now been happily reversed. The new organizations set up at Grangemouth, Fawley, Shell Haven and elsewhere are the results of this change of policy. These works will become not so much oil works as chemical works and will provide a large number of reactive chemicals of a type which are not found in coal-tar.

Some of the possible products of these developments are costly—but are also much in demand. To take one example, butadiene is one of the simpler compounds that are produced in cracking and by other methods; it can be polymerized to yield a synthetic rubber, which, in some respects, is actually superior to natural rubber. Again, methane, the simplest hydrocarbon, can be treated with chlorine to give a number of the so-called chlorinated solvents, and also chloroform. It can be oxidised to give formalin, the well-known antiseptic, and methyl alcohol. A newer use for it is in the production of carbon black for incorporation in motor tyres to give increased abrasion resistance. Its nearest neighbour, ethane, is related to D.D.T. Another neighbour, propane, is now being converted into glycerine, hitherto only obtainable from vegetable oils and fats. Butane, the fourth member of the series, is related to iso-octane, necessary in aviation fuels, and to Buna synthetic rubber. The uses of the simpler unsaturated gases are still more interesting. Ethylene, for example, present in all cracker gases, as in coke oven gas, can readily be converted into ordinary alcohol, formerly obtained only be fermentation of grain or starch. Its chlorinated product is the parent of the well-known P.V.C. (polyvinylchloride) plastic. By another route, it gives the well-known transparent plastic, Perspex. A simple reaction converts it into a refrigerant and some local anaesthetics, and into ethylene glycol, the well-known anti-freeze. By high pressure treatment, it gives polyethylene, now known as Alkathene, a material of remarkable electrical insulating property. It would take several pages even to give brief mention to the possibilities of another parent, acetylene, that is also easily obtained from these gases, and can result in new production of resins, varnishes, alcohols, aldehydes, ketones and a large number of complex derivatives.

It is symptomatic of modern development that the very type of waste materials that caused much concern to James Young in the early days, in his efforts to meet the competition of rapid importation of petroleum products from abroad, should now be the basis of a new chemical industry. Scotland will be able to deploy a wealth of practical experience in the handling and production of such materials and the new developments will provide her with an industrial opportunity that will not be missed.

Differences in Scots and English Banking Practice

Readers of this month's Scottish survey may be interested to know that THE BANKER hopes to publish in subsequent issues a series of authoritative articles by Mr. F. S. Taylor, Secretary of the Institute of Bankers in Scotland, on the differences between existing English and Scottish banking practice.

THE BANK OF BERMUDA, LTD.

HAMILTON

Somerset St. George's

CAPITAL £125,000
TOTAL RESERVES £287,625
TOTAL RESOURCES £5,652,863

Complete Banking and Trust Facilities · *Real Estate Division*

Sole Depository of the Imperial Government in Bermuda

International Banking Review*

Austria

THE Government has taken measures to simplify the exchange rate structure. In future all merchandise trade will be governed by a single rate of exchange instead of the three-tier system operated since the devaluation of 1949. The new rate of 21.36 schillings to the U.S. dollar is the same as the previous " mean " rate, so that a large part of the country's commercial traffic will continue to carry the same rate as it has during the past year. For transfers of capital and transactions arising from tourist activities, the previous rate of 26 schillings to the U.S. dollar is also being retained.

Belgium

The regulations governing the treatment of Belgium and Luxembourg bank notes brought into the country from abroad have been revised. Imported Belgian and Luxembourg bank notes will continue to be sent to the National Bank, but instead of being credited to a foreign " B " account of the nationality of the sender, as hitherto, they will be credited to so-called " Foreign Accounts—Banknotes ". Credit balances in these accounts will be available for payments to residents of the Belgian-Luxembourg Economic Union and for settlement of any transactions with foreigners approved by the Exchange Institute. They cannot be used for the purchase of foreign currency, for transfer to a foreign " B " account or for the purchase of Belgian-Luxembourg and Belgian Colonial securities or coupons. Balances can, however, be freely transferred to other accounts of the same type. The withdrawal of the previous facilities, which allowed the convertibility of imported bank notes into foreign exchange, is due to recent indications that capital is leaving the country.

Arrangements have been concluded with Swiss bankers for the issue in Switzerland of a loan of 60 million Swiss francs to furnish part of the finance needed for the Belgian Congo ten-year development plan.

Bolivia

Parliamentary approval is stated to have been obtained for a plan providing for the resumption of interest payments on the country's foreign debt as from the beginning of 1951. The plan appears to be based on the scheme worked out in 1948 in collaboration with the Foreign Bondholders' Protective Council of New York. Under this scheme owners of present defaulted issues were to receive $1,100 for each $1,000 of existing bonds. Interest on the new bonds was to start at 1 per cent. per annum rising to a maximum of 3 per cent. at the end of six years.

Canada

The Government's decision to free the Canadian dollar has been followed by an appreciation of the Dominion's currency of about 5 per cent. in terms of U.S. dollars and sterling. According to the Dominion's Finance Minister, Mr. Howe, the Government's decision to unpeg the rate was mainly intended to halt the influx of foreign money, a development that had helped to cause the Dominion's reserve of gold and U.S. dollars to rise by $534 millions to $1,789 millions in the third quarter of the year. The Government rejected the alternative course of raising the Canadian dollar to parity with the U.S. dollar because such a change " might not have been justified by fundamental considerations and might therefore be found to require reversal or further adjustment in the near future ".

The limits on the amount of U.S. dollars that Canadians may have for travel in the United States have been raised. The annual allocation of U.S. dollars for travel purposes has been increased from $150 millions to $500 millions. In addition, $50 millions American money and $50 millions Canadian money may now be taken to the United States without permit for short excursions.

---

* **Other current international banking news is discussed in "A Banker's Diary ", on pages 267-272.**

The Bank of Canada has raised its bank rate to 2 per cent. from the level of 1½ per cent. that had ruled since 1944.

Chile

The Budget estimates for 1951 provide for total expenditure of 21,199 million pesos, an increase of some 6,000 million pesos on the 1950 figure. Revenue is expected to amount to 22,201 million pesos.

Costa Rica

The Central Bank has announced the lowering of the official " free " exchange rate from 8.00 to 7.50 colones per U.S. dollar. This action, coupled with some extensive sales of U.S. dollars by the bank, has had the effect of bringing down the unofficial dollar rate from 9.00 to around 8.00 colones to the U.S. dollar. The bank has authorized the release of $1 million for meeting payments on outstanding mercantile letters of credit. It has also begun to utilize the sum of $3,647,000 placed at its disposal by the Government for the repatriation of the country's overseas debt.

Denmark

The Minister of Commerce, Mr. H. C. Hansen, has drawn attention to a further deterioration in the external payments position and has stated that Kr. 400 millions of imports will now have to be transferred from the free to the controlled lists. The Minister stated that the country's terms of trade had shown a deterioration of 20 per cent. since August, 1949, and that the external payments deficit in the 18 months to end-1951 was now expected to come out at Kr. 870 millions instead of the Kr. 750 millions estimated in August. As the greater part of the deficit would be with Marshall Plan countries, Denmark expected to have used up the greater part of her " gold-free " credit with the European Payments Union by the end of 1950.

The Budget statement for 1951-52 provides for revenue of Kr. 2,163 millions compared with Kr. 2,040 millions in 1949-50. Expenditure is put at Kr. 2,151 millions against Kr. 2,033 millions.

Germany

A report issued by the Bank Deutscher Laender discloses that new investment in Western Germany rose to 4,400 million D-marks during the second quarter of the year compared with Dm. 3,900 millions during the preceding three months.

TO BANK MANAGERS

Please consult us—we have been established since 1772 — regarding your customers' JEWELLERY, SILVER, COINS and MEDALS.

We will gladly advise you free of charge

SPINK & SON, LTD.

By Appointment
Medallists to
H.M. The King

5, 6 and 7 King Street,
St. James's, LONDON, S.W.1

Tel.: WHItehall 5275
4 lines

Investment by public authorities increased between the two periods from Dm. 920 millions to 1,050 millions and private investment through the capital market from Dm. 433 millions to 715 millions. Much of the increase in new investment was accounted for by long-term credits granted by commercial banks; these rose from Dm. 145 millions in the first quarter to Dm. 406 millions in the second.

Honduras

The two new banking institutions recommended by the 1949 International Monetary Fund mission to Honduras—the Central Bank of Honduras and the National Development Bank—are now in full operation. The new banks are wholly owned by the Government, but their Boards of Directors include representatives of the main economic groups of the country. The Central Bank has an initial capital equivalent to U.S. $250,000 and will be charged with the management of monetary, credit and exchange policies according to a Constitution very similar to that now operating in Ceylon (described in THE BANKER in July). The initial capital of the Development Bank is equivalent to U.S. $1.5 millions. This sum is to be supplemented by certain assigned tax receipts and by the issue of securities and the acceptance of savings deposits. Its main investment activity is expected to be concerned with loans to agriculture, but some resources may be allocated to a Development Fund for use in other ways.

India

India has refused to seek a renewal of the barter agreement with Pakistan that expired at the end of September. No offer has therefore been made for additional supplies of Pakistan jute. The Indian Government's decision appears to have been inspired by the belief that the barter deal was exploited by Pakistan in support of the Pakistan policy of no devaluation.

Japan

The basic principles for financing Japan's economic rehabilitation have been drawn up by the Autonomous Economic Council, which was set up by the Government to work out a broad programme of industrial expansion that would make Japan economically independent by 1953. The Council has agreed that funds for "rationalization" purposes must be made available to heavy industries at reasonable interest rates. It has also stated that finance from the United States aid counterpart fund should be utilized largely for assisting private enterprise. The Council has stressed that governmental aid for the expansion of industry must not be allowed to interfere with the achievement of balanced budgets during the period in which Japan is working towards economic independence.

New currency regulations announced by the Occupation authorities have made it illegal for anyone other than Occupation personnel and authorized agencies to retain newly-acquired foreign exchange. All other persons and firms must in future offer foreign currencies to an exchange bank in exchange for Japanese yen. Such yen will be kept in special accounts which will be freely convertible into the currency originally offered for sale. There is, however, no obligation to deposit in these accounts any foreign exchange holdings acquired before July 1, 1950.

The Japanese Government has announced its intention of assisting the rehabilitation of the gold-mining industry in the belief that an increase in the gold reserves held by the Bank of Japan or other leading banks will tend to improve the standing of the country's credit overseas. The Bank of Japan is to make funds available for financing gold production and for the purchase of additional gold-mining equipment. Official plans include subsidies for gold prospecting, the provision of finance for the immediate rehabilitation of surface facilities and the petitioning of the Occupation authorities for the right to dispose of newly-mined gold "as the

Government sees fit ". A Gold Mines Rehabilitation Committee has been set up to guide Government loans into the most useful channels.

Mexico

The United States Export-Import Bank has granted Mexico a credit of $150 millions. The money is to be used for the extension and improvement of railways and roads, for the development of agriculture and irrigation facilities and for financing electric power and telecommunication projects. The President of Mexico has revealed that negotiations are proceeding with the International Bank for Reconstruction for a credit of $10 millions to finance the purchase of American capital equipment for private development projects in Mexico. He has also stated that the favourable balance of payments has enabled Mexico to add $78 millions to her gold and currency reserves since the peso was stabilized in 1949.

Netherlands

As a further move to restrain inflationary pressures the Netherlands Bank has increased its discount rate for the first time since mid-1941, from 2½ to 3 per cent. The interest rate for advances remains, however, at the previous level of 3½ per cent. The Bank is stated to have urged the Government to tighten up credit control, possibly by the enforcement of limitations on loans by private banks.

Norway

The half-yearly Budget report asserts that increased defence expenditure and recent price adjustments will impose a serious strain on the country's foreign exchange position despite the fact that production in all industries has risen more rapidly than had been expected. Import prices are stated to have increased during the half-year by 10 per cent. whereas export prices have shown a fall of 3 per cent. In consequence there was a visible deficit of Kr. 686 millions. To meet the cost of the enlarged defence Budget, which falls on an economy already fully extended, the Government is increasing taxes on confectionery and spirits. It is also raising taxes on income and capital by 10 per cent. except for the lower-income groups.

Under an agreement concluded with the United Kingdom, Norway is to repay by mid-1952 20 per cent. of her debt of £2.7 millions to Britain which was outstanding at the inception of E.P.U. The treatment of the balance is to be the subject of further discussions in 1952.

South Africa

Details of the changes in the South African import control system, which are to come into force at the beginning of 1951, have been set out in a statement issued by the Union's Minister of Economic Affairs. They show that general permits will replace the present universal permits. The new permits will be available for imports from any part of the world. The total value issued will be determined by the Union's earnings of foreign exchange from exports of merchandise and gold, less the sum required for covering net invisible imports. In addition, general permits will be issued to the extent of £2 sterling for every £1 net inflow of hard currency capital. Restricted import permits, available only for imports from soft currency countries, will be issued only to the extent that total exchange receipts exceed the limits fixed for general permits. The new arrangements are based on the assumption that net hard currency earnings will remain at about existing levels. But Mr. Louw has stated that should hard currency earnings fall materially, it may be necessary to restrict general permits below the level now intended in order to protect the Union's gold reserve. He has also explained that the object of limiting general permits to the Union's net currency income plus double the hard currency capital inflow is to ensure that a reasonable proportion of the Union's current gold production goes to the Bank of England irrespective of the amount of the capital inflow into the Union from the sterling area. It has been agreed that the £50 millions annual gold sale to the Bank of England which the Union has undertaken to make is not the limit of the gold that will be sold to Britain. Any further transfers will depend, however, upon the ability of soft currency countries to capture the Union's general import permits. Payments for all the Union's soft currency trade will continue to be cleared through the Bank of England.

Despite the fact that the capital influx and other factors have raised the Union's reserves of sterling to about £70-80 millions, the Government has raised a £5 million loan on the London capital market. The decision to proceed with the operation at this time is believed to be largely explained by the Government's anxiety to take advantage of the buoyant conditions that have recently obtained in the London market. It is thought that the possibility of a reflux to Britain of " hot " money deposited in the Union in the 1949-50 period may also have played some part in its decision.

Sweden

As a further step in the Government's fight against inflation, the Riksbank has raised the rate of interest for loans where State bonds are offered as collateral from 2½ to 3 per cent.

Under an agreement concluded with the Norwegian Government, Kr. 16.5 millions of the Kr. 30 millions of Norwegian debt to Sweden outstanding at the inception of E.P.U. will be repaid in the three years from July 1, 1951. The repayment of the balance of the debt is to be the subject of further negotiations.

The Lombard Association

The Lombard Association has recently celebrated the 21st Anniversary of its foundation. At a dinner held last month, under the chairmanship of Mr. Hubert Chappell of the Central Hanover Bank and Trust Company, the guest of honour was Sir Harold Webbe, Member of Parliament for Westminster and the City of London. The secretary of the Association, Mr. B. B. Boreham of the Banque Belge pour l'Etranger (Overseas), responded to the toast of the Association. Eighty-seven banks are now represented on this Association, whose members meet monthly to discuss some problem of interest.

Appointments and Retirements

Bank of Scotland—*Glasgow:* Mr. J. Johnston, assistant manager, to be manager on retirement of Mr. James Craig, and Mr. Wm. McInnes, from Anniesland, Glasgow, to be assistant manager.

Barclays Bank—*Darlington:* Mr. P. H. Carter, from Trinity House Lane, Hull, to be district manager. *Trustee Dept.:* Mr. W. M. Faggetter, from City branch, to be manager of Woking branch. *Chief Foreign:* Mr. R. W. T. Kallend, a sub-manager, to be an assistant manager. *Accrington, Church and Oswaldtwistle:* Mr. T. Powell, from Littleborough, to be manager. *Chorley:* Mr. C. A. Robbins, from Rochdale Road, Blackley, to be manager. *Downham Market:* Mr. L. J. W. Seekings, from Stansted, to be manager. *Hull, Trinity House Lane:* Mr. H. B. Niven, a controller of advances (London district), to be manager. *Littleborough:* Mr. E. Nield, from Rochdale, to be manager. *Newmarket:* Mr. J. R. J. Ibbett, from Downham Market, to be assistant manager. *Norwich, London Street:* Mr. L. J. Turner, from Wymondham, to be manager. *Stansted:* Mr. G. W. D. Winkley, from St. Neots, to be manager. *Wymondham:* Mr. C. F. Askew, from Bank Plain, Norwich, to be manager.

British Bank of Iran and the Middle East—The death is announced of Mr. James McMurray, C.B.E., who had been in the bank's service for 53 years, and was chief manager from 1919 until his election to the board in 1928.

Clydesdale & North of Scotland Bank—*Glasgow, Trongate:* Mr. R. F. Caldwell, from London, to be manager. *Dundee:* Mr. W. Scott, from Paisley, to be manager on retirement of Mr. J. R. Nicoll. *Paisley, High Street:* Mr. J. Mahon, from Trongate, Glasgow, to be manager. *Edinburgh:* Mr. A. Paterson, joint superintendent of branches, Northern Area, to be manager on retirement of Mr. A. W. Howitt. *Findochty:* Mr. A. Ritchie, from Broad Street, Peterhead, to be manager on retirement of Mr. W. G. Milne.

District Bank—*Haslingden:* Mr. H. Donaldson to be accountant.

Lloyds Bank—Mr. E. Whitley-Jones, one of the chief general managers, will be retiring at the end of the year, when he will be elected to a seat on the board. Mr. A. H. Ensor will then be the sole chief general manager. As from January 1, 1951, Mr. R. G. Smerdon, M.C., and Mr. E. J. Hill, joint general managers, to be deputy chief general managers; Mr. A. J. Faux, assistant general manager, to be a joint general manager; Mr. G. Y. Hinwood, manager of City Office, to be a joint general manager; Mr. K. L. Boyes, district manager at Liverpool, to be an assistant general manager; and Mr. R. T. Fagan, D.F.C., becomes senior joint general manager. *Aberdare:* Mr. G. D. M. Williams, from Pontardulais, to be manager in succession to the late Mr. C. W. Jones. *Bristol:* Mr. N. A. Robb, of the inspection staff, to be sub-manager. *Bristol, Totterdown:* Mr. C. D. H. Clark, from Bristol, to be manager; *Westbury-on-Trym:* Mr. E. C. G. Robbins, from Temple Gate, Bristol, to be manager. *Brompton Road, S.W.:* Mr. R. E. Penn, of the admin. dept., Head Office, to be manager on retirement of Mr. J. G. Vautier. *Clevedon:* Mr. W. T. Hancock, from Westbury-on-Trym, Bristol, to be manager on retirement of Mr. J. D. F. Laidlaw. *Huddersfield:* Mr. E. B. Nash, from Southport, to be assistant manager in succession to Mr. F. Schofield, who is on prolonged sick leave. *Looe:* Mr. G. H. Coath, from Paignton, to be manager on retirement of Mr. R. A. S. Howarth. *Oxford:* Mr. F. H. Smith, from Totterdown, Bristol, to be assistant manager. *Perivale:* Mr. H. M. Taylor, from Piccadilly, W., to be manager. *Pontardulais:* Mr. G. Jones, of Pontardulais, to be manager. *Portsmouth, North End:* Mr. S. R. E. Witt, an inspector, to be manager in succession to the late Mr. H. Best. *Putney, S.W.:* Mr. L. A. Bayly, from Regent Street, W., to be manager. *Regent Street, W.:* Mr. F. V. R. Giles, of the inspection staff, to be sub-manager. *Somerton:* Mr. W. J. Chard, from Chippenham, to be manager. *Southport:* Mr. S. G. Baker, an assistant controller, advance dept., Head Office, to be manager. *Watlington:* Mr. C. E. Bewers to be manager. *Wells, Somerset:* Mr. A. S. Bedford, from Somerton, to be manager on retirement of Mr. J. Court. *Worthing, Broadwater:* Mr. P. B. Canneaux, from Horley, to be manager when this sub-branch to Worthing is converted to full branch status.

Martins Bank—Mr. John A. Holt, M.B.E., has been elected to a seat on the general board. *Head Office, Trustee Dept.:* Mr. H. T. Dawson and Mr. G. A. Morley have been appointed assistant managers. *Newburn:* Mr. W. O. C. Carrick to be manager. *Newcastle upon Tyne, Wingrove:* Mr. N. L. Watson to be manager on retirement of Mr. J. P. Cotton.

Midland Bank—Mr. W. Donald, C.B.E., has been elected a member of the board and of the board of the Midland Bank Executor and Trustee Company Limited. *London—Threadneedle Street:* Mr. C. D. Lawrence, from Queen Victoria Street, to be assistant manager; *Holborn Viaduct:* Mr. H. E. Surman, from Threadneedle Street, to be manager on retirement of Mr. S. S. Blackwell; *Park Royal:* Mr. F. Arnsby, from Winchester House, to be manager; *Queen Victoria St.:* Mr. J. H. Wilson, from Park Royal, to be manager. *Bedale:* Mr. A. Bayliss, of Ripon, to be manager in succession to the late Mr. F. J. Hind. *Birmingham, Chester Road:* Mr. H. K. Waterson to be manager of this branch, formerly under the same management as Erdington. *Nottingham, Arkwright St.:* Mr. H. J. Pyatt, of Northampton, to be manager on retirement of Mr. J. F. Ridlington. *Tunbridge Wells, High St.:* Mr. H. P. Rees, of Eastbourne, to be manager on retirement of Mr. N. C. Yates. *Windermere:* Mr. F. A. Honeyman, of Liscard, Wallasey, to be manager in succession to the late Mr. C. G. Parker.

National Bank of Scotland—*Glasgow, Paisley Road:* Mr. D. W. Clow, Glasgow, Hillhead, to be manager in succession to the late Mr. William Clark.

Union Bank of Scotland—*Lerwick and Scalloway Branches:* Mr. H. S. Drever, from Lerwick branch, to be manager in succession to the late Mr. James Couper. Mr. G. S. Clouston to be accountant.

Westminster Bank—*Head Office, Income Tax Dept.:* Mr. F. L. Bigg to be deputy principal; Mr. H. J. Land, Mr. H. W. Brewster and Mr. H. C. Dobson to be assistant principals. *Bognor Regis:* Mr. C. S. Eales, from Worcester, to be manager on retirement of Mr. L. C. Matthews. *Cambridge:* Mr. W. M. Bayley, from Croydon, Waddon and West Croydon, to be manager on retirement of Mr. A. E. Wilson. *College Road, Great Crosby and Blundellsands:* Mr. N. Hilton from Childwall, to be manager in succession to the late Mr. W. Riley. *Croydon, Waddon and West Croydon:* Mr. B. T. H. Burman, from Luton, to be manager. *Melbourne, Derbyshire:* Mr. F. D. Darlington, from Penrith, to be manager on retirement of Mr. G. D. Robinson. *Sloane Street:* Mr. D. P. Gravatt, from Lower Sloane Street, to be manager. *Worcester:* Mr. F. V. Cameron, from Bridport, to be manager.

CAPTAIN ERIC SMITH

The death of Captain Eric Smith, M.C., LL.D., chairman of the National Provincial Bank and of Rolls Royce Ltd., has robbed the City of one of its most forceful and courageous personalities. Captain Smith, who was bred in the traditions of eight generations of family banking, had carried the flag of his intense personal convictions through four memorable annual addresses since his election to the chairmanship of the National Provincial in 1946; the City is the poorer for the passing of this grand and forthright old soldier of the 1914-18 war.

U.K. Balance of Payments

(£ millions)

	1947	1948	1949			1950 Jan.-June (provisional)
			Jan.-June	July-Dec.	Year	
A. CURRENT ACCOUNT						
DEBITS						
1. Imports (f.o.b.)						
(*a*) Food and feeding-stuffs	719	826	*432*	*476*	908	*511*
(*b*) Tobacco	30	36	*15*	*34*	49	*17*
(*c*) Raw materials	509	606	*352*	*329*	681	*424*
(*d*) Petroleum	77	127	*58*	*63*	121	*77*
(*e*) Machinery and vehicles	84	50	*27*	*28*	55	*28*
(*f*) Other imports	141	145	*74*	*77*	151	*93*
(*g*) Total imports	1,560	1,790	*958*	*1,007*	1,965	*1,150*
2. Shipping	165	174	*95*	*97*	192	*96*
3. Interest, profits and dividends	94	102	*52*	*53*	105	*55*
4. Travel	76	66	*27*	*46*	73	*32*
5. Migrants' funds, legacies, private gifts (net)	46	44	*18*	*13*	31	*8*
6. Government transactions (net)	230	87	*64*	*76*	140	*63*
7. Total debits	2,171	2,263	*1,214*	*1,292*	2,506	*1,404*
CREDITS						
8. Exports and re-exports (f.o.b.)	1,135	1,583	*915*	*903*	1,818	*1,042*
9. Shipping	198	250	*142*	*138*	280	*153*
10. Interest, profits and dividends	171	174	*78*	*89*	167	*98*
11. Travel	21	33	*20*	*24*	44	*26*
12. Other (net)	88	143	*75*	*84*	159	*137*
13. Total credits	1,613	2,183	*1,230*	*1,238*	2,468	*1,456*
14. BALANCE OF CURRENT TRANSACTIONS (credit, + ; debit, –)	**– 558**	**– 80**	**+ 16**	**– 54**	**– 38**	**+ 52**
of which (*a*) visible trade	– 425	– 207	*– 43*	*– 104*	– 147	*– 108*
(*b*) invisible	– 133	+ 127	*+ 59*	*+ 50*	+ 109	*+ 160*
B. INVESTMENT AND FINANCING ACCOUNT						
I. Grants, etc. (to U.K., –)	– 30	– 138	*– 71*	*– 83*	– 154	*– 111*
II. Inter-area transfers, etc. (net)	—	—	—	—	—	—
III. Overseas investment, borrowing, etc. (investment by U.K., +)	– 141	– 93	*+ 8*	*+ 286*	+ 294	*+ 16*
IV. Sterling liabilities, etc. (increase, –)	– 235	+ 205	*+ 130*	*– 305*	– 175	*– 115*
V. Gold and dollar reserves (increase, +)	– 152	– 54	*– 51*	*+ 48*	– 3	*+ 262*
VI. TOTAL OF INVESTMENT AND FINANCING	**– 558**	**– 80**	**+ 16**	**– 54**	**– 38**	**+ 52**
of which, net change in capital account (III–V above, investment, + ; disinvestment, –)	– 528	+ 58	*+ 87*	*+ 29*	+ 116	*+ 163*

STERLING BALANCES

(£ millions)

	Dec. 31, 1946	Dec. 31, 1947	Dec. 31, 1948	June 30, 1949	Dec. 31, 1949	June 30, 1950
A. U.K. STERLING LIABILITIES						
To non-sterling area countries						
Dollar Area	35	21	24	19	36	36
Other Western Hemisphere	213	235	135	92	80	89
O.E.E.C. countries	419	469	354	368	424	378
Other non-sterling countries	617	558	524	531	503	471
Total—non-sterling area countries	1,284	1,283	1,037	1,010	1,043	974
To sterling area countries						
Dependent overseas territories	495	502	521	533	534	580
Other sterling area countries	1,922	1,786	1,801	1,692	1,763	1,917
Total—sterling area countries	2,417	2,288	2,322	2,225	2,297	2,497
Total—sterling liabilities to all countries	**3,701**	**3,571**	**3,359**	**3,235**	**3,340**	**3,471**
B. U.K. OFFICIAL HOLDINGS OF NON-DOLLAR CURRENCIES						
O.E.E.C. countries	40	36	38	44	23	41
Other non-sterling countries	1	1	—	—	—	—
Total	**41**	**37**	**38**	**44**	**23**	**41**

BRITAIN'S GOLD AND DOLLAR RESERVES

(Millions of U.S. dollars)

Years and Quarters	Net Deficit	Financed by :					Reserves at end of Period
		U.S. and Canadian Credits	Purchases from I.M.F.	S. African Gold Loan	E.R.P.	Change in Reserves	
1946	908	1123	—	—	—	+ 220	2696
1947	4131	3273	240	—	—	- 618	2079
1948 :							
I	595	345	88	325	—	+ 162	2241
II	434	7	16	—	89	- 321	1920
III	306	—	—	—	163	- 143	1777
IV	375	—	24	—	430	+ 79	1856
Total, 1948	1710	352	128	325	682	- 223	1856
1949 :							
I	330	30	32	—	325	+ 56	1912
II	632	30	—	—	340	- 262	1651
III	539	29	—	—	284	- 225	1425
IV	31	27	20	—	246	+ 263	1688
Total, 1949	1532	116	52	—	1196	- 168	1688
1950 :							
I	+ 40	27	—	—	229	+ 296	1984
II	+180	18	—	—	240	+ 438	2422
III	+187	—	—	—	147	+ 334	2756

Banking Statistics

National Savings

(£ millions)

	Savings Certificates (net)	Defence Bonds (net)	Savings Banks (net)*	Total Small
1946 II ..	1.0	95.9	36.2	133.1
III ..	− 1.2	13.4	35.6	47.8
IV ..	10.8	17.9	11.8	40.5
1947 I ..	39.7	20.4	27.0	87.1
II ..	40.3	− 3.7	− 19.6	17.0
III ..	2.7	− 19.8	2.9	− 14.2
IV ..	16.4	− 25.1	17.2	8.5
1948 I ..	29.4	− 29.9	54.6	54.1
II ..	− 2.3	− 31.2	13.7	− 19.8
III ..	− 4.5	− 20.3	6.4	− 18.4
IV ..	− 7.2	− 5.8	8.3	− 4.7
1949 I ..	7.3	− 1.4	52.2	58.1
II ..	− 1.5	− 0.4	8.6	6.7
III ..	− 7.6	− 4.8	− 2.7	− 15.1
IV ..	− 8.9	− 5.1	− 3.2	− 17.2
1950 I ..	− 5.5	− 9.1	36.6	22.0
II ..	−10.9	− 9.6	6.4	− 14.1
III ..	−13.6	− 7.5	− 2.4	− 23.5

	Savings Certificates (net)	Defence Bonds (net)	Savings Banks (net)*	Total Small
1949 Mar. ..	1.3	− 0.9	10.5	10.9
April ..	1.0	0.1	9.7	10.8
May ..	− 0.6	− 0.5	2.9	1.8
June ..	− 1.9	—	− 4.0	− 5.9
July ..	− 2.7	− 1.2	− 9.5	− 13.4
Aug. ..	− 1.9	− 1.6	− 0.3	− 3.8
Sept. ..	− 3.0	− 2.0	7.1	2.1
Oct. ..	− 1.6	− 1.5	7.7	4.6
Nov. ..	− 3.1	− 1.7	1.8	− 3.0
Dec. ..	− 4.2	− 1.9	−12.7	− 18.8
1950 Jan. ..	− 0.6	− 1.8	17.6	15.2
Feb. ..	− 3.2	− 2.6	13.0	7.2
Mar. ..	− 1.7	− 4.7	6.0	− 0.4
April ..	− 2.5	− 3.2	8.7	3.0
May ..	− 3.8	− 3.4	0.4	− 6.8
June ..	− 4.6	− 3.0	− 2.7	− 10.3
July ..	− 4.7	− 2.5	− 6.7	− 13.9
Aug. ..	− 4.1	− 2.3	− 0.8	− 7.2
Sept. ..	− 4.8	− 2.7	5.1	− 2.4

* Including Release Benefit Accounts from July, 1945.

Ordinary Revenue and Expenditure

Year to Mar. 31 :	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1938 ..	898.1*	872.6	25.5*
1939 ..	1054.8*	927.3	127.5*
1940 ..	1809.7*	1049.2	760.5*
1941 ..	3867.2	1408.9	2458.3
1942 ..	4775.7	2074.1	2701.6
1943 ..	5623.2	2819.9	2803.3
1944 ..	5788.4	3038.5	2749.9
1945 ..	6057.8	3238.1	2819.7
1946 ..	5474.8	3284.5	2190.3
1947 ..	3910.3	3341.2	569.1
1948 ..	3187.1	3844.9	657.8†
1949 ..	3152.8	4006.6	853.8†
1950 ..	3356.6	3924.0	567.4†

By Quarters:	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1947 II ..	619.8	840.1	220.3†
III ..	808.3	807.5	0.7
IV ..	736.1	761.5	25.4†
1948 I ..	1023.0	1435.8	412.8†
II ..	613.8	794.8	181.0†
III ..	751.4	831.7	80.2†
IV ..	791.4	802.7	11.3†
1949 I ..	996.2	1577.9	581.7†
II ..	754.0	756.7	2.8†
III ..	833.0	820.7	12.3
IV ..	823.7	811.0	12.7
1950 I ..	946.0	1536.3	590.3†
II ..	725.2	768.8	43.5†
III ..	778.2	813.3	35.1†

*Allowing for loan expenditure. † Surplus.

Floating Debt

	Oct. 22, 1949 £m.	Sept. 23, 1950 £m.	Sept. 30, 1950 £m.	Oct. 7, 1950 £m.	Oct. 14, 1950 £m.	Oct. 21, 1950 £m.
Ways and Means Advances:						
Bank of England ..	11.5	—	—	2.8	—	—
Public Departments ..	400.9	401.3	451.9	467.6	469.9	490.2
Treasury Bills:						
Tender	2770.0	3130.0	3130.0	3130.0	3140.0	3160.0
Tap	2210.1	1869.7	1845.0	1820.0	1789.4	2077.8
Treasury deposit receipts ..	797.5	505.0	505.0	530.0	555.0	574.0
	6190.1	5905.9	5931.9	5950.3	5954.3	6302.0

Treasury Deposit Receipts

		Raised £m.	Redeemed £m.	Outstanding† £m.
1949 March	31*	274.5	158.5	1135.5
June	30	298.0	194.0	1243.5
Sept.	30	—	258.0	911.0
Dec.	31	260.0	142.5	872.0
1950 March	31	—	29.5	465.0
June	30	140.0	100.0	350.0
July	29	105.0	50.0	405.0
Aug.	26	45.0	—	450.0
Sept.	30	55.0	—	505.0

* Periods ended on last Saturday in each month, except at final month in each quarter.
† The T.D.R. issue reached its highest level on September 7, 1945, at £2225 millions.

1950 Week ended:		Raised	Redeemed	Net New Borrowing
April	22 ..	25.0	28.5	− 3.5
,,	29 ..	25.0	25.0	—
May	6 ..	20.0	45.0	− 25.0
,,	13 ..	30.0	50.0	− 20.0
,,	20 ..	40.0	40.0	—
,,	27 ..	20.0	30.0	− 10.0
June	3 ..	40.0	50.0	− 10.0
,,	10 ..	30.0	40.0	− 10.0
,,	17 ..	40.0	50.0	− 10.0
,,	24 ..	30.0	50.0	− 20.0
,,	30 ..	—	—	—
July	8 ..	25.0	—	25.0
,,	15 ..	30.0	38.5	− 8.5
July	22 ..	25.0	11.5	13.5
,,	29 ..	25.0	—	25.0
Aug.	5 ..	—	—	—
,,	12 ..	—	—	—
,,	19 ..	25.0	—	25.0
,,	26 ..	20.0	—	—
Sept.	2 ..	—	—	—
,,	9 ..	25.0	—	25.0
,,	16 ..	30.0	—	30.0
,,	23 ..	—	—	—
,,	30 ..	—	—	—
Oct.	7 ..	25.0	—	25.0
,,	14 ..	25.0	—	25.0
,,	21 ..	40.0	21.0	19.0

* Unofficial figures.

. . . every 3 seconds

In London and New York and in over 50 branches in major countries throughout the world . . . every 3 seconds we serve a client, handling his financial problems with the understanding and skill that is the inheritance of over 100 years of banking experience . . .

THE NATIONAL CITY BANK OF NEW YORK

(incorporated with limited liability under the National Bank Act of the U.S.A.)

HEAD OFFICE: 55 WALL STREET, NEW YORK

LONDON OFFICES: 117 OLD BROAD STREET, E.C.2; 11 WATERLOO PLACE, S.W.1

ndingt
.
·5
·5
.o
.o
.o
.o
.o
.o
.o
er.

New
rowing
3·5
5.o
—
—
5.o
—
—
5.o
).o
—
—
5.o
5.o
.o

w.1